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SOHO CHINA LIMITED
SOHO中國有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 410)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Reference is made to the announcements of SOHO China Limited (the “**Company**”) dated 26 October 2012 and 1 November 2012 in relation to the Notes Issue (the “**Announcements**”). All terms used herein have the same meaning as defined in the Announcements, unless otherwise defined.

Please refer to the attached offering memorandum dated 31 October 2012 (“**Offering Memorandum**”), in relation to the Notes, which has been published on the website of Singapore Exchange Securities Trading Limited on 12 November 2012.

The posting of the Offering Memorandum on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.09(2) of the Listing Rules, and not for any other purposes.

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

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

By order of the Board
SOHO China Limited
Pan Shiyi
Chairman

Hong Kong, 12 November 2012

As at the date of this announcement, the executive directors of the Company are Mr. Pan Shiyi, Mrs. Pan Zhang Xin Marita, Ms. Yan Yan, Ms. Tong Ching Mau and Mr. Yin Jie; and the independent non-executive directors of the Company are Dr. Ramin Khadem, Mr. Cha Mou Zing Victor and Mr. Yi Xiqun.



SOHO China Limited

(incorporated in the Cayman Islands with limited liability)

US\$600,000,000 5.750% Senior Notes Due 2017
US\$400,000,000 7.125% Senior Notes Due 2022

Issue Price: 2017 Notes: 100%
Issue Price: 2022 Notes: 100%
 plus accrued interest, if any, from the issue date

Our 5.750% senior notes due 2017 (the “2017 Notes”) will bear interest from November 7, 2012 at 5.750% *per annum* payable semi-annually in arrear on May 7 and November 7 of each year, beginning May 7, 2013. The 2017 Notes will mature on November 7, 2017. Our 7.125% senior notes due 2022 (the “2022 Notes,” together with the 2017 Notes, the “Notes”) will bear interest from November 7, 2012 at 7.125% *per annum* payable semi-annually in arrear on May 7 and November 7 of each year, beginning May 7, 2013. The 2022 Notes will mature on November 7, 2022.

The Notes are senior obligations of SOHO China Limited (the “Company”), guaranteed by certain of our existing subsidiaries (the “Subsidiary Guarantors”), other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the sections entitled “Description of the 2017 Notes” and “Description of the 2022 Notes.” We refer to the guarantees by the Subsidiary Guarantors as Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of the Company may be replaced by a limited-recourse guarantee (the “JV Subsidiary Guarantee”). We refer to the subsidiaries providing a JV Subsidiary Guarantee as JV Subsidiary Guarantors.

We may at our option redeem the 2017 Notes, in whole or in part, at any time and from time to time on or after November 7, 2015, at the redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to the redemption date. At any time and from time to time prior to November 7, 2015, we may redeem up to 35% of the 2017 Notes, at a redemption price of 105.750% of the principal amount, plus accrued and unpaid interest, if any, in each case, using the net cash proceeds from sales of certain kinds of capital stock. We may at our option redeem the 2022 Notes, in whole or in part, at any time and from time to time on or after November 7, 2017, at the redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to the redemption date. At any time and from time to time prior to November 7, 2015, we may redeem up to 35% of the 2022 Notes, at a redemption price of 107.125% of the principal amount, plus accrued and unpaid interest, if any, in each case, using the net cash proceeds from sales of certain kinds of capital stock. In addition, we may redeem any series of the Notes at any time, in whole but not in part, at a price equal to 100% of the principal amount of such series of Notes plus (i) accrued and unpaid interest (if any) to the redemption date and (ii) a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control Triggering Event (as defined in the indentures governing the Notes (the “Indentures”), we must make an offer to repurchase all such series of Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

Each series of the Notes will be (i) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (ii) at least *pari passu* in right of payment against the Company with respect to all unsecured, unsubordinated indebtedness of the Company (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law), (iii) effectively subordinated to the other secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor, and (iv) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) and the pledge of any collateral. See “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.”

For a more detailed description of the Notes, see the sections entitled “Description of the 2017 Notes” and “Description of the 2022 Notes.”

Investing in the Notes involves risks. See the section entitled “Risk Factors” beginning on page 18.

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the Singapore Exchange Securities Trading Limited (the “SGX-ST”). Such approval will be granted when the Notes are admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 or its equivalent in foreign currencies for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), and may not be offered or sold within the United States or to, or for the benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act (“Regulation S”)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Notes are being offered and sold by the Initial Purchasers (as defined in this offering memorandum) only to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S. For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions.”

It is expected that the delivery of the Notes will be made on or about November 7, 2012 through the book-entry facilities of Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme, Luxembourg (“Clearstream”) against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

HSBC

Morgan Stanley

Standard Chartered Bank

Joint Bookrunners and Joint Lead Managers

Barclays

Goldman Sachs

The date of this offering memorandum is October 31, 2012.

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

This offering memorandum is not a prospectus for the purposes of the European Union’s Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the “EU Prospectus Directive”). This offering memorandum has been prepared on the basis that all offers of the Notes made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus in connection with offers of the Notes.

IN CONNECTION WITH THE OFFERING OF THE NOTES, STANDARD CHARTERED BANK, AS STABILIZATION AGENT MAY, ON BEHALF OF THE INITIAL PURCHASERS (AS DEFINED BELOW), ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE NOTES. SPECIFICALLY, THE INITIAL PURCHASERS MAY OVERALLOT THE OFFERING, CREATING A SYNDICATE SHORT POSITION. IN ADDITION, THE INITIAL PURCHASERS MAY BID FOR, AND PURCHASE, THE NOTES IN THE OPEN MARKET TO COVER SYNDICATE SHORTS OR TO STABILIZE THE PRICE OF THE NOTES. ANY OF THESE ACTIVITIES MAY STABILIZE OR MAINTAIN

THE MARKET PRICE OF THE NOTES ABOVE INDEPENDENT MARKET LEVELS. THE INITIAL PURCHASERS ARE NOT REQUIRED TO ENGAGE IN THESE ACTIVITIES, AND MAY END ANY OF THESE ACTIVITIES AT ANY TIME. NO ASSURANCE CAN BE GIVEN AS TO THE LIQUIDITY OF, OR THE TRADING MARKET FOR, THE NOTES. THESE TRANSACTIONS MAY BE EFFECTED IN THE OVER-THE-COUNTER MARKET OR OTHERWISE.

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

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

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

No representation or warranty, express or implied, is made by The Hongkong and Shanghai Banking Corporation Limited, Morgan Stanley & Co. International plc, Standard Chartered Bank, Barclays Bank PLC and Goldman Sachs (Asia) L.L.C. (together, the “Initial Purchasers”), the Trustee, the Paying Agent, the Registrar or any of their respective affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation, whether as to the past or the future. To the fullest extent permitted by law, none of the Initial Purchasers accept any responsibility for the contents of this offering memorandum or for any statement made or purported to be made by the Initial Purchasers or on their behalf in connection with the Company or the issue and offering of the Notes. The Initial Purchasers accordingly disclaim any and all liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this offering memorandum or any such statement.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchasers, the Trustee, the Paying Agent, the Registrar or any person affiliated with them in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (other than as contained herein and information given by our duly authorized officers and employees in connection with investors’ examination of our company and the terms of the offering of the Notes) and, if given or made, any such other

information or representation should not be relied upon as having been authorized by us, the Initial Purchasers, the Trustee, the Paying Agent or the Registrar.

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

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

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. We are not making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own professional advisors for legal, business, tax and other advice regarding an investment in the Notes.

We reserve the right to withdraw the offering of Notes at any time, and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

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

Market data, industry forecast and the PRC and property industry statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchasers or our or their respective directors and advisors, and neither we, the Initial Purchasers nor our or their directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Due to possibly inconsistent collection methods and other problems, such statistics herein may be inaccurate. You should not unduly rely on such market data, industry forecast and the PRC and property industry statistics.

In this offering memorandum, all references to “US\$” and “U.S. dollars” are to United States dollars, the official currency of the United States of America (the “United States” or “U.S.”); all references to “HK\$” and “H.K. dollars” are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC (“Hong Kong” or “HK”); all references to “MOP” are to Macau patacas, the official currency of the Macau Special Administrative Region of the PRC (“Macau”); and all references to “RMB” or “Renminbi” are to the Renminbi, the official currency of the People’s Republic of China (“China” or the “PRC”).

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.3530 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on June 29, 2012, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK\$7.7572 to US\$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on June 29, 2012. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see the section entitled “Exchange Rate Information.”

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

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

Unless the context otherwise requires, references to “2009,” “2010” and “2011” in this offering memorandum are to our financial years ended December 31, 2009, 2010 and 2011, respectively.

References to the “Convertible Bonds” are to our 3.75% convertible bonds due 2014.

References to the “2011 Credit Agreement” are to the credit agreement we entered into on June 22, 2011 in connection with a US\$605,000,000 exchangeable term loan facility with, among others, a syndicate of banks and Standard Chartered Bank (Hong Kong) Limited as facility agent; and such credit facility, the “2011 Credit Facility.”

References to the “2012 Credit Agreement” are to the credit agreement we entered into on June 5, 2012 in connection with a US\$626,000,000 exchangeable term loan facility with, among others, a syndicate of banks and Standard Chartered Bank (Hong Kong) Limited as the facility agent; and such credit facility, the “2012 Credit Facility.”

References to the “Notes” are to our 2017 Notes and 2022 Notes or either series of such Notes. See the sections entitled “Description of the 2017 Notes” and “Description of the 2022 Notes.”

References to “share” are to, unless the context indicates otherwise, an ordinary share, with a nominal value of HK\$0.02, in our share capital.

References to “sq.m.” are to square meters.

A property is considered sold after we have executed the purchase contract with a customer and have delivered the property to the customer. All site area and gross floor area (“GFA”) information presented in this offering memorandum represents the site area and GFA of entire projects, including areas attributable to the minority shareholders of our non-wholly owned project companies.

In this offering memorandum, unless the context otherwise requires, all references to “affiliate” are to a person or entity directly or indirectly controlled by, or under the direct or indirect common control of, another person or entity; all references to “subsidiary” are used with the meaning ascribed to it in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended (the “Listing Rules”), which includes: (i) a “subsidiary undertaking” as defined in the twenty-third schedule to the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Companies Ordinance”), (ii) any entity which is accounted for and consolidated in the audited consolidated accounts of another entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable, and (iii) any entity which will, as a result of acquisition of its equity interest by another entity, be accounted for and consolidated in the next audited consolidated accounts of such other entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable; all references to “associate” are used with the meaning ascribed thereto under the Listing Rules, which includes: (i) in relation to an individual, his spouse and children under the age of 18, certain trustees, his or his family holding companies, as well as companies over which he, his family, trustee interests and holding companies exercise at least 30% voting power, (ii) in relation to a company, its subsidiaries, its holding companies, subsidiaries of such holding companies, certain trustees, as well as companies over which such company and its subsidiaries, trustee interests, holding companies and subsidiaries of such holding companies together exercise at least 30% voting power and (iii) in the context of connected transactions, certain connected persons and enlarged family members of a director, chief executive or substantial shareholder of a listed issuer; and all references to “controlling shareholder” are used with the meaning ascribed thereto under the Listing Rules, including any person or group of persons who are entitled to exercise 30% or more of the voting power at our general meetings or are in a position to control the composition of a majority of our board of directors, and “controlling interest” will be construed accordingly.

In this offering memorandum, a land grant contract refers to a state-owned land use rights grant contract (國有土地使用權出讓合同) between a developer and the relevant PRC governmental land administrative authorities, typically the local state-owned land bureaus.

In this offering memorandum, a land use rights certificate refers to a state-owned land use rights certificate (國有土地使用權證) issued by a local real estate and land resources bureau with respect to the land use rights;

a construction land planning permit refers to a construction land planning permit (建設用地規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction works planning permit refers to a construction works planning permit (建設工程規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction permit refers to a construction works commencement permit (建築工程施工許可證) issued by local construction committees or equivalent authorities in China; a pre-sale permit refers to a commodity property pre-sale permit (商品房預售許可證) issued by local housing and building administrative bureaus or equivalent authorities with respect to the pre-sale of relevant properties; a certificate of completion refers to a construction project planning inspection and clearance certificate (建設工程規劃驗收合格證) issued by local urban zoning and planning bureaus or equivalent authorities or equivalent certificate issued by relevant authorities in China with respect to the completion of property projects subsequent to their on-site examination and inspection; and a property ownership certificate refers to a property ownership and land use rights certificate (房地產權證) issued by a local real estate and land resources bureau with respect to the land use rights and the ownership rights of the buildings on the relevant land.

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

SUMMARY

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

OVERVIEW

We are a leading PRC commercial property developer focused on central Beijing and Shanghai. We have primarily focused on the development and sale of prime office properties and complementary retail and high-end residential and hotel properties. We believe we were one of the early movers and are currently one of the largest participants in the PRC prime office property sector. With over 16 years of history, we have established a broad range of capabilities in developing, selling, leasing and managing prime office and retail properties. We believe our “SOHO China” brand is one of the most recognizable brands in China. We work with leading international architects to bring innovative designs to China, and aim to create lasting architectural landmarks with our developments. We were named one of the “Most Admired Companies” in China by *Fortune* magazine (China edition) six times from 2006 to 2012. Mr. Pan Shiyi and Ms. Zhang Xin, who are our co-founders and currently our chairman and chief executive officer, respectively, are among the most well-known leaders in the PRC real estate industry.

Since our founding in 1995, we have focused developments in central Beijing. We believe we are one of the largest prime office property managers in Beijing. Since 2009, we have successfully expanded into and established our presence in Shanghai, through the acquisition or development of a total of 11 projects. We believe we are the largest private land owner on the Bund in Shanghai. Except one completed and substantially sold-out resort project in Bo’ao, Hainan Province, all of our developments to date have been in Beijing or Shanghai. As of September 30, 2012, we had completed development of 14 projects and had four projects under development in Beijing, with a total completed GFA of 2.5 million sq.m., and we had completed development of three projects and had eight projects under development in Shanghai, with a total completed GFA of 281,000 sq.m. We intend to continue to focus on central Beijing and Shanghai in the foreseeable future, because we believe Beijing and Shanghai are and will remain leaders in the PRC prime office property sector with substantially higher rents and lower vacancies than other cities in China, according to publicly available market research reports. See “Industry Overview.” Furthermore, we attach great importance to site selection in central Beijing and Shanghai, with an emphasis on prime locations near transportation hubs and iconic sites, as we believe location, in addition to architectural design and quality, is a key factor contributing to the strong demand for our properties and our ability to charge premium rents.

We believe that the supply of prime office properties in central Beijing and Shanghai is finite and the demand for such properties will remain strong in line with China’s economic growth, and therefore expect that prime office rents in central Beijing and Shanghai will increase in the future. We believe that the commercial property sector in the PRC, as compared to the residential property sector, is less affected by government policies curbing price increases or otherwise imposing restrictions. In order to retain more of such expected growing value in properties we develop, we are gradually changing our “build-to-sell” business model to a “build-to-hold” business model and increasing our proportion of investment properties. We believe the “build-to-hold” business model will enable us to enjoy stable recurring income appreciating in line with economic growth as well as capital asset appreciation driven by our investment property portfolio. As of September 30, 2012, we held two completed investment property projects with a total GFA attributable to us of approximately 90,000 sq.m. As of the same date, we had 11 properties under development that we intend to hold in whole or in part as investment properties, with a total planned GFA attributable to us of approximately 1.6 million sq.m.

In addition, we believe our strong track record in leasing and property management has prepared us well as we become a larger landlord in the PRC prime office property sector. Our experienced leasing team is responsible for procuring tenants for all the investment properties we hold and substantially all the properties we developed and sold to our customers when the properties were sold. Similarly, we manage all of the investment properties we lease to our tenants, as well as substantially all of the properties we developed and sold. As of September 30, 2012, we had an aggregate GFA of approximately 2.3 million sq.m. under our management.

As of September 30, 2012, we had 15 current projects, including five in Beijing and 10 in Shanghai. As of the same date, these projects had an aggregate total planned GFA of approximately 2.9 million sq.m., including 0.3 million sq.m. completed and 2.6 million sq.m. under development.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our turnover was RMB7,413.5 million, RMB18,215.1 million, RMB5,684.8 million (US\$894.8 million) and RMB1,222.4 million (US\$192.4 million), respectively. For the same periods, our net profit for the year/period was RMB3,394.7 million, RMB3,771.6 million, RMB4,486.4 million (US\$706.2 million) and RMB642.7 million (US\$101.2 million), respectively. As of December 31, 2009, 2010 and 2011 and June 30, 2012, we had cash and cash equivalents of RMB9,241.9 million, RMB17,724.9 million, RMB11,906.2 million (US\$1,874.1 million) and RMB5,873.3 million (US\$924.5 million), respectively.

Recent Developments

To support our transition to the “build-to-hold” business model and build up our retail property leasing capability, we announced in May 2012 that we entered into a framework agreement with INSITE Asset Management Group Ltd., a leading commercial asset management operator in the PRC with experience cooperating with many international brands and companies, to establish a joint venture for the purpose of providing high-quality commercial operation and management services to our commercial projects. The framework agreement contemplates the establishment of a 50%-50% equity joint venture company, and with respect to each commercial project of ours to be managed by the joint venture, the joint venture company will enter into a separate management contract with the relevant project company. As of September 30, 2012, the joint venture company was formed and we continued to have discussions with our joint venture partner with regard to potential management contracts.

OUR COMPETITIVE STRENGTHS

We believe that our primary competitive strengths are:

- High-quality property projects located in prime locations in Beijing and Shanghai;
- Proven track record and execution capabilities;
- Strong marketing capability with a well-recognized brand name;
- Strong existing pipeline of investment properties currently under development;
- Prudent financial and liquidity management with diversified funding channels; and
- Experienced management team with strong corporate governance.

OUR BUSINESS STRATEGIES

Our business strategies are to:

- Strategically shift our business focus from “build-to-sell” to “build-to-hold” and increase our recurring income;
- Continue to maintain profitability through selection and development of high-quality projects in prime locations;
- Continue to capitalize on and enhance our brand name and customer loyalty by developing high profile and innovative projects; and
- Continue to exercise financial discipline in our business operations.

GENERAL INFORMATION

We were incorporated in the Cayman Islands on March 5, 2002, as an exempted company with limited liability. Our shares have been listed on the Stock Exchange of Hong Kong Limited since October 8, 2007. Our corporate headquarters is at 11/F, Section A, Chaowai SOHO, No. 6B Chaowai Street, Chaoyang District, Beijing, China. Our place of business in Hong Kong is at 8/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our website is www.sohochina.com. Information contained on our website does not constitute part of this offering memorandum.

THE OFFERING

Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the 2017 Notes” and “Description of the 2022 Notes.”

Issuer.....	SOHO China Limited (the “Company”)
Notes Offered	2017 Notes: US\$600,000,000 aggregate principal amount of 5.750% senior notes due 2017 2022 Notes: US\$400,000,000 aggregate principal amount of 7.125% senior notes due 2022
Offering Price	2017 Notes: 100% of the principal amount of the 2017 Notes 2022 Notes: 100% of the principal amount of the 2022 Notes
Maturity Date	2017 Notes: November 7, 2017 2022 Notes: November 7, 2022
Interest	The 2017 Notes will bear interest at a rate of 5.750% <i>per annum</i> , payable semi-annually in arrears The 2022 Notes will bear interest at a rate of 7.125% <i>per annum</i> , payable semi-annually in arrears
Interest Payment Dates.....	May 7 and November 7 of each year, commencing May 7, 2013
Ranking of the Notes	The Notes are: <ul style="list-style-type: none">• general obligations of the Company;• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• at least <i>pari passu</i> in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “Description of the 2017 Notes—The Subsidiary Guarantees and the JV Subsidiary Guarantees” and “Description of the 2022 Notes—The Subsidiary Guarantees and the JV Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;

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

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”, the Notes will be secured by a pledge of the Collateral as described below under the caption “Description of the 2017 Notes—Security” and “Description of the 2022 Notes—Security” and will:

- be entitled to the benefit of a lien on the Collateral (subject to any Permitted Liens) shared on a *pari passu* basis pursuant to the Intercreditor Deed with (i) the other series of the Notes, (ii) the creditors and the facility agent under the 2012 Credit Agreement, (iii) the creditors and the facility agent under the 2011 Credit Agreement, (iv) the holders of and the trustee for the Convertible Bonds and (v) holders of other Permitted *Pari Passu* Secured Indebtedness (or their representatives or agents); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees

Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The initial Subsidiary Guarantors will consist of all of the Company’s Restricted Subsidiaries other than (i) those Restricted Subsidiaries organized under the laws of the PRC (the “PRC Non-Guarantor Subsidiaries”) and (ii) Initial Other Non-Guarantor Subsidiaries.

All of the Subsidiary Guarantors are holding companies that do not have significant operations. See “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral—Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees.”

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC) to execute and deliver to Trustee a supplemental indenture to each of the Indenture, pursuant to which such Restricted Subsidiary will become a party to the Indentures and to the Common Security Agent and the Trustee an accession deed to the Intercreditor Deed, pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor, as soon as practicable and in any event within 30 days after such Person becomes a Restricted Subsidiary. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary, *provided that*, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 20% of the Total Assets of the Company.

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released or replaced in certain circumstances. See “Description of the 2017 Notes—The Subsidiary Guarantees and the JV Subsidiary Guarantees—Release of the Subsidiary Guarantees and JV Subsidiary Guarantees,” “Description of the 2022 Notes—The Subsidiary Guarantees and the JV Subsidiary Guarantees—Release of the Subsidiary Guarantees and JV Subsidiary Guarantees,” “Description of the 2017 Notes—The Subsidiary Guarantees and the JV Subsidiary Guarantees —Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees” and “Description of the 2022 Notes—The Subsidiary Guarantees and the JV Subsidiary Guarantees—Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees.”

Ranking of Subsidiary Guarantees.....

The Subsidiary Guarantee of each Subsidiary Guarantor:

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

In addition, subject to the limitations described in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”, the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to the benefit of a security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption “Description of the 2017 Notes—Security” and “Description of the 2022 Notes—Security” shared on a *pari passu* basis pursuant to the Intercreditor Deed with (i) the other series of the Notes, (ii) the creditors and the facility agent under the 2012 Credit Agreement, (iii) the creditors and the facility agent under the 2011 Credit Agreement, (iv) the holders of and the trustee for the Convertible Bonds and (v) holders of other Permitted Pari Passu Secured Indebtedness (or their representatives or agents); and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

See “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and Collateral.”

JV Subsidiary Guarantees

A JV Subsidiary Guarantee is required to be delivered by a Subsidiary Guarantor if the Company wishes to release such Subsidiary Guarantor from its Subsidiary Guarantee following a sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% and no more than 49.9% of the issued Capital Stock of the relevant Subsidiary Guarantor, *provided* that certain specified conditions are satisfied or complied with. See “Description of the 2017 Notes—The Subsidiary Guarantees and JV Subsidiary Guarantees—Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees” and “Description of the 2022 Notes—The Subsidiary Guarantees and JV Subsidiary Guarantees—Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees.” No JV Subsidiary Guarantee exists as of the Original Issue Date. If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be enforceable only up to the JV Entitlement Amount;

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

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

Security to be Granted

The obligations of the Company with respect to the Notes, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees and the performance of all other obligations of the Company and the Subsidiary Guarantors under the Notes, the Subsidiary Guarantees and the Indentures will, with respect to each series of the Notes upon the applicable Trustee's accession to the Intercreditor Deed on the Original Issue Date, be secured by (i) the Capital Stock of the initial Subsidiary Guarantors and (ii) the other Collateral, if any, that secured the obligations of the Company and any Subsidiary Guarantor under any other Permitted *Pari Passu* Secured Indebtedness from time to time (subject to Permitted Liens and the Intercreditor Deed).

The Company has also agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary or additional shares of Capital Stock acquired or otherwise received by the Company or such Subsidiary Guarantor of any existing Restricted Subsidiary (in each case, other than Persons organized under the laws of the PRC or Other Non-Guarantor Subsidiaries) after the Original Issue Date, as soon as practicable but in any event within 30 days after such Person becomes a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indentures, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

The Collateral will be shared on a pari passu basis pursuant to the Intercreditor Deed by the holders of the Notes, the creditors and facility agent under the 2012 Credit Agreement, the creditors and facility agent under the 2011 Credit Agreement, the holders of and the trustee for the Convertible Bonds and the holders of other Permitted Pari Passu Secured Indebtedness (or their representatives or agents). See “Description of the 2017 Notes—Security” and “Description of the 2022 Notes—Security.”

Intercreditor Deed.....

The Trustee of each series of the Notes, on behalf of applicable Holders, will accede on the Original Issue Date to a security trust and intercreditor deed dated June 24, 2011 (the “Intercreditor Deed”) that governs the relationship among the Holders, the creditors and the facility agent under the 2012 Credit Agreement, the creditors and the facility agent under the 2011 Credit Agreement, the holders of and the trustee for the Convertible Bonds and the holders of any other Permitted Pari Passu Secured Indebtedness (or their representatives or agents). See “Description of the 2017 Notes—Security—Intercreditor Deed” and “Description of the 2022 Notes—Security—Intercreditor Deed.”

Use of Proceeds.....

We intend to use the net proceeds from this offering for general corporate purposes. We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest the net proceeds in Temporary Cash Investments (as defined under “Description of the 2017 Notes—Definitions” and “Description of the 2022 Notes—Definitions”).

Optional Redemption.....

At any time and from time to time on or after November 7, 2015 the Company may redeem the 2017 Notes, in whole or in part, at the redemption prices set forth in “Description of the 2017 Notes—Optional Redemption” plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time on or after November 7, 2017 the Company may redeem the 2022 Notes, in whole or in part, at the redemption prices set forth in “Description of the 2022 Notes—Optional Redemption” plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to November 7, 2015 the Company may at its option redeem the 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2017 Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to November 7, 2017 the Company may at its option redeem the 2022 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2022 Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to November 7, 2015 the Company may redeem up to 35% of the aggregate principal amount of the 2017 Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 105.750% of the principal amount of the 2017 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the 2017 Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

At any time and from time to time prior to November 7, 2015 the Company may redeem up to 35% of the aggregate principal amount of the 2022 Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 107.125% of the principal amount of the 2022 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the 2022 Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Repurchase of Notes Upon a Change
of Control Triggering Event.....

Not later than 30 days following the occurrence of a Change of Control Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date. See “Description of the 2017 Notes—Repurchase of Notes Upon a Change of Control Triggering Event” and “Description of the 2022 Notes—Repurchase of Notes Upon a Change of Control Triggering Event.”

Redemption for Taxation Reason..... Subject to certain exceptions and as more fully described herein, the Company may redeem each series of the Notes, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption, if the Company or a Subsidiary Guarantor would become obliged to pay certain additional amounts as a result of certain changes in specified tax laws. See “Description of the 2017 Notes—Redemption for Taxation Reasons” and “Description of the 2022 Notes—Redemption for Taxation Reasons.”

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

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

These covenants are subject to a number of important qualifications and exceptions described in “Description of the 2017 Notes—Certain Covenants” and “Description of the 2022 Notes—Certain Covenants.”

Transfer Restrictions.....	The Notes will not be registered under the U.S. Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”
Form, Denomination and Registration.....	Each series of the Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of the common depository of Euroclear and Clearstream.
Book-Entry Only	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants. For a description of certain factors relating to clearance and settlement, see “Description of the 2017 Notes—Book-Entry; Delivery and Form” and “Description of the 2022 Notes—Book-entry; Delivery and Form.”
Delivery of the Notes.....	The Company expects to make delivery of the Notes, against payment in same-day funds on or about November 7, 2012, which the Company expects will be the fifth business day following the date of this offering memorandum referred to as “T+5.” You should note that initial trading of the Notes may be affected by the T+5 settlement. See “Plan of Distribution.”
Trustee	The Bank of New York Mellon, London Branch
Paying Agent	The Bank of New York Mellon, London Branch
Registrar.....	The Bank of New York Mellon (Luxembourg) S.A.
Listing and Trading	Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 (or its Dollar Equivalent) for as long as the Notes are listed on the Official List of the SGX-ST and for so long as the rules of the SGX-ST so require.
Ratings.....	The Notes have been provisionally rated “BB+” by Standard and Poor’s Ratings Services and “Ba1” by Moody’s Investors Service. We cannot assure investors that these ratings will be confirmed or they will not be adversely revised or withdrawn either before or after delivery of the Notes.
Governing Law.....	The Notes and the Indentures will be governed by and will be construed in accordance with the laws of the State of New York. The Subsidiary Guarantees and any JV Subsidiary Guarantees will be governed by the laws of Hong Kong. The Intercreditor Deed is governed by the laws of Hong Kong. The relevant pledge documents will be governed under the laws of the jurisdiction in which the relevant Subsidiary Guarantor is incorporated.

Risk Factors.....

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

ISIN/Common Code.....

ISIN

Common Code

2017 Notes:

XS0850023093

085002309

2022 Notes:

XS0851996925

085199692

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated statement of comprehensive income data for 2009, 2010 and 2011 and the summary consolidated balance sheet data as of December 31, 2009, 2010 and 2011 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by KPMG, the independent certified public accountants, and included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary consolidated statement of comprehensive income data for the six months ended June 30, 2011 and 2012 and the summary consolidated balance sheet data as of June 30, 2012 set forth below (except for EBITDA data) have been derived from our unaudited but reviewed condensed consolidated interim financial information included elsewhere in this offering memorandum. Results for interim periods are not indicative of results for the full year. The summary financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Summary Consolidated Statement of Comprehensive Income and Other Financial Data

	For the year ended December 31,				For the six months ended June 30,		
	2009	2010	2011	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
					(unaudited)	(unaudited)	(unaudited)
					(unaudited)	(unaudited)	(unaudited)
					(in thousands)		
Turnover	7,413,451	18,215,091	5,684,822	894,825	2,645,634	1,222,378	192,410
Cost of properties sold . . .	(3,556,393)	(8,958,349)	(2,954,246)	(465,016)	(1,128,708)	(640,869)	(100,877)
Gross profit	3,857,058	9,256,742	2,730,576	429,809	1,516,926	581,509	91,533
Valuation gains on investment properties . . .	2,144,461	165,000	4,027,445	633,944	1,997,026	423,351	66,638
Other revenue and income . .	115,065	207,438	276,142	43,466	103,542	90,473	14,241
Selling expenses	(262,084)	(547,437)	(237,661)	(37,409)	(107,545)	(54,056)	(8,509)
Administrative expenses . .	(184,801)	(204,776)	(210,511)	(33,136)	(79,119)	(90,463)	(14,239)
Other operating expenses . .	(121,857)	(153,132)	(134,097)	(21,108)	(54,013)	(63,846)	(10,050)
Profit from operations . . .	5,547,842	8,723,835	6,451,894	1,015,566	3,376,817	886,968	139,614
Financial income	233,693	224,394	559,453	88,061	234,846	272,123	42,834
Financial expenses	(146,620)	(292,351)	(350,752)	(55,210)	(132,159)	(195,950)	(30,844)
Government grants	23,795	44,190	201,285	31,683	–	–	–
Share of profit of a jointly controlled entity	–	–	–	–	–	77,105	12,137
Profit before taxation . . .	5,658,710	8,700,068	6,861,880	1,080,100	3,479,504	1,040,246	163,741
Income tax.	(2,264,020)	(4,928,485)	(2,375,458)	(373,911)	(1,283,642)	(397,590)	(62,583)
Profit for the year/period	<u>3,394,690</u>	<u>3,771,583</u>	<u>4,486,422</u>	<u>706,189</u>	<u>2,195,862</u>	<u>642,656</u>	<u>101,158</u>

	For the year ended December 31,				For the six months ended June 30,		
	2009	2010	2011	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
				(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in thousands)						
Attributable to:							
Equity shareholders of the Company	3,300,178	3,636,156	3,892,308	612,672	1,750,143	612,575	96,423
Non-controlling interests	94,512	135,427	594,114	93,517	445,719	30,081	4,735
Profit for the year/period	<u>3,394,690</u>	<u>3,771,583</u>	<u>4,486,422</u>	<u>706,189</u>	<u>2,195,862</u>	<u>642,656</u>	<u>101,158</u>
Earnings per share (RMB)							
Basic	0.636	0.701	0.751		0.337	0.118	
Diluted	0.625	0.673	0.716		0.324	0.118	
Profit for the year/period	3,394,690	3,771,583	4,486,422	706,189	2,195,862	642,656	101,158
Other comprehensive income for the year/period (after tax and reclassification adjustments)							
Exchange differences on translation of financial statements of foreign operations	(58,902)	41,556	(19,655)	(3,093)	107,540	(26,686)	(4,201)
Surplus on revaluation of office premises, net of deferred tax	—	—	70,481	11,094	—	—	—
Total comprehensive income for the year/period	<u>3,335,788</u>	<u>3,813,139</u>	<u>4,537,248</u>	<u>714,190</u>	<u>2,303,402</u>	<u>615,970</u>	<u>96,957</u>
Attributable to:							
Equity shareholders of the Company	3,241,276	3,677,712	3,943,134	620,673	1,857,683	585,889	92,222
Non-controlling interests	94,512	135,427	594,114	93,517	445,719	30,081	4,735
Total comprehensive income for the year/period	<u>3,335,788</u>	<u>3,813,139</u>	<u>4,537,248</u>	<u>714,190</u>	<u>2,303,402</u>	<u>615,970</u>	<u>96,957</u>
Other financial data (unaudited):							
EBITDA ¹	3,427,391	8,577,137	2,443,772	384,664	1,387,598	474,257	74,651
EBITDA margin ²	46.2%	47.1%	43.0%	43.0%	52.4%	38.8%	38.8%

1 EBITDA consists of profit for the year/period before income tax, financial income, financial expenses, share of profit of a jointly controlled entity, government grants, depreciation and valuation gains on investment properties. EBITDA is not a standard measure

under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as turnover and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indentures governing the Notes. Interest expense excludes amounts capitalized. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

2 EBITDA margin is calculated by dividing EBITDA by turnover.

Summary Consolidated Balance Sheet Data

	As of December 31,				As of June 30,	
	2009	2010	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
				(unaudited)	(unaudited)	(unaudited)
	(in thousands)					
Non-current assets						
Investment properties	2,920,000	3,085,000	13,334,500	2,098,930	13,918,000	2,190,776
Property and equipment	672,211	554,161	688,140	108,317	685,228	107,859
Bank deposits	1,277,691	3,840,915	1,222,115	192,368	1,515,784	238,593
Interest in a jointly controlled entity	—	1,211,900	—	—	4,111,387	647,157
Deferred tax assets	557,761	1,019,420	901,918	141,967	948,692	149,330
	5,427,663	9,711,396	16,146,673	2,541,582	21,179,091	3,333,715
Current assets						
Properties under development and completed properties held for sale	21,520,795	18,697,483	23,428,529	3,687,790	27,966,452	4,402,086
Deposits and prepayments	895,042 ⁽¹⁾	1,006,408	5,066,025	797,422	3,233,950	509,043
Trade and other receivables	670,942 ⁽¹⁾	790,224	549,471	86,490	1,672,604	263,278
Bank deposits	—	—	2,582,919	406,567	1,809,699	284,857
Cash and cash equivalents	9,241,879	17,724,921	11,906,157	1,874,100	5,873,318	924,495
	32,328,658	38,219,036	43,533,101	6,852,369	40,556,023	6,383,759

	As of December 31,				As of June 30,	
	2009	2010	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
				(unaudited)	(unaudited)	(unaudited)
	(in thousands)					
Current liabilities						
Bank loans	550,000	2,580,744	2,214,593	348,590	3,206,352	504,699
Sales deposits	5,314,274 ⁽²⁾	6,720,091	13,198,710	2,077,555	15,931,019	2,507,637
Trade and other payables . .	2,393,902 ⁽²⁾	2,586,354	1,949,503	306,863	3,166,040	498,354
Taxation.	3,700,397	6,966,710	5,681,681	894,331	4,227,112	665,372
	11,958,573	18,853,899	23,044,487	3,627,339	26,530,523	4,176,062
Net current assets	20,370,085	19,365,137	20,488,614	3,225,030	14,025,500	2,207,697
Total assets less current liabilities	25,797,748	29,076,533	36,635,287	5,766,612	35,204,591	5,541,412
Non-current liabilities						
Bank loans	5,769,660	6,052,171	9,422,836	1,483,210	8,317,951	1,309,295
Convertible bonds.	1,958,783	1,984,828	1,986,897	312,749	2,049,643	322,626
Contract retention payables .	22,241	273,732	276,677	43,551	223,086	35,115
Deferred tax liabilities	604,537	786,434	1,731,255	272,510	1,848,963	291,038
	8,355,221	9,097,165	13,417,665	2,112,020	12,439,643	1,958,074
Net assets	17,442,527	19,979,368	23,217,622	3,654,592	22,764,948	3,583,338
Capital and Reserves						
Share capital	107,485	107,485	107,502	16,921	107,502	16,921
Reserves	17,116,130	19,135,247	21,615,261	3,402,371	21,653,043	3,408,318
Total equity attributable to equity shareholders of the Company	17,223,615	19,242,732	21,722,763	3,419,292	21,760,545	3,425,239
Non-controlling interests. . .	218,912	736,636	1,494,859	235,300	1,004,403	158,099
Total Equity	17,442,527	19,979,368	23,217,622	3,654,592	22,764,948	3,583,338

Notes:

- (1) The balance of "Deposits and prepayments" was included under "Trade and other receivables" on the published financial statements for the year ended and as of December 31, 2009.
- (2) The balance of "Sales deposits" was included under "Trade and other payables" on the published financial statements for the year ended and as of December 31, 2009.

RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS

We may not be able to generate adequate returns on our properties held for long-term investment purposes

Property development is subject to varying degrees of risk. The investment returns available from investments in real estate depend, to a large extent, on the amount of capital appreciation generated, income earned from the rental of the relevant properties as well as the expenses incurred. Maximizing yields from properties held for investment also depends to a large extent on active ongoing management and maintenance of the properties. The ability to eventually dispose of investment properties will also depend on market conditions and levels of liquidity, which may be limited or subject to significant fluctuation in the case of certain types of commercial properties. The revenue derived from and the value of property investment may be adversely affected by a number of factors, including but not limited to changes in market rates for comparable rentals, the inability to collect rent due to bankruptcy or insolvency of tenants and the costs resulting from periodic maintenance, repair and re-letting.

The illiquid nature and the lack of alternative uses of investment properties could restrain our revenue and cash flow and limit our ability to respond to adverse changes in the performance of our properties

We are strategically shifting our business focus from “build-to-sell” to “build-to-hold” and increasing the proportion of properties we hold as investment properties. Holding a large amount of investment properties and collecting rents, as compared to selling them, could restrain our revenue and cash flow in the short term. In addition, investment properties are relatively illiquid compared to other types of investments such as publicly traded equity securities. As a result, our ability to promptly sell one or more of our investment properties in response to changing economic, financial and investment conditions is limited. The property market is affected by many factors that are beyond our control, including but not limited to general economic conditions, the availability of mortgage financing and interest rates, and we cannot accurately determine the market price of our investment properties nor are we able to predict whether we will be able to sell any of our investment properties at the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. In addition, investment properties may not be readily convertible for alternative uses without substantial capital expenditure if the original function of such investment property became unprofitable due to competition, age, decreased demand or other factors. Similarly, for certain investment properties to be sold, substantial capital expenditure may be required to correct defects or make improvements to the property due to factors such as change in building regulations or as a result of age, compounding the effort and time required. These factors and any others that would impede our ability to respond to adverse changes in the performance of our investment properties could materially and adversely affect our business, financial condition and results of operations.

We are dependent on the performance of the property market in China, particularly Beijing and Shanghai

Our business is dependent on the performance of the property market in Beijing and Shanghai. All of our completed, current and pending projects are located in Beijing or Shanghai except for the Boao Canal Village in Hainan province. The success of our business therefore depends on the continued growth of the property market in the PRC and, in particular, Beijing and Shanghai. Our financial condition, results of operations and profitability may be materially and adversely affected by any adverse development in the supply of or demand for properties, property price, interest rates, inflation or government actions in Beijing, Shanghai and elsewhere in the PRC. Policies and measures introduced or which may be introduced by the PRC government (including in Beijing and Shanghai) may, among other things, lead to changes in market conditions and sentiment, including price instability and an imbalance between the supply of, and the demand for, properties in Beijing and Shanghai. We cannot be certain that significant declines will not take place in the Beijing or Shanghai property market or in other property markets in which we may operate in the future.

Furthermore, the PRC government and authorities, including those in Beijing and Shanghai, have taken measures implemented by the relevant PRC government authorities, including those in Beijing and Shanghai, to restrict the growth of the local property markets. Since last year, the PRC government has taken measures to control inflation and slow the price increases in the property market, as the economy and the real estate market recovered. Any government measures aiming to regulate the pace of economic growth in China may cause material adverse changes in the PRC (including Beijing and Shanghai) economy and property market. Any such changes could have a material adverse effect on our revenue and profitability.

As we retain some properties as investment properties, recurring income and revaluation gains are subject to market conditions and can fluctuate accordingly. Property values and rental rates tend to be cyclical in nature. Property values and rental rates in the PRC (including Beijing and Shanghai) have been affected by, among other factors, supply and demand dynamics, the rate of economic growth in the PRC, interest rates, inflation and political and economic developments in the PRC. There is no assurance that rental rates and property values will not decline sharply again or will not experience a high degree of volatility in the future and our financial condition could be adversely affected.

Increasing competition in the PRC, particularly in Beijing and Shanghai, may adversely affect our business and financial condition

In recent years, an increasing number of property developers have begun property development in Beijing, Shanghai and elsewhere in the PRC. These include overseas property developers (including a number of leading Hong Kong property developers), and developers from other parts of the PRC, some of which may have better track records and greater financial and other resources than us. The intensity of the competition between property developers for land, financing, raw materials and skilled management and labor resources, in regions or cities where we operate, in particular, in Beijing and Shanghai, may result in increased costs for the acquisition of land for development, an oversupply of completed properties in certain parts of the PRC, including in Beijing and Shanghai, a decrease in property prices and a slowdown in the rate at which new property developments will be approved and/or reviewed by the relevant government authorities, any of which may adversely affect our business and financial position. Such competition may also extend to property management and other ancillary services we provide to our property purchasers and tenants. In addition, the property markets in Beijing, Shanghai and elsewhere in the PRC are rapidly changing. If we cannot respond to changes in market conditions more swiftly or more effectively than our competitors, our business, results of operations and financial condition could be adversely affected.

We may not have adequate capital resources to fund our land acquisitions and property developments

Property development is capital intensive. We principally fund our property developments from a combination of cash generated from our business, borrowings from banks, proceeds from sales and pre-sales of our properties, capital contributions from shareholders and proceeds from issuance of equity and debt securities. Our ability to secure sufficient financing for land acquisition and property development depends on a number of factors that are beyond our control, including market conditions in debt and equity capital markets, investors' perception of our securities, lenders' perception of our creditworthiness, the PRC economy and the PRC regulations that affect the availability and financing costs for real estate companies.

Various PRC regulations restrict our ability to raise capital through external financing and other methods, including, without limitation, the following:

- we cannot pre-sell uncompleted units in a project prior to achieving certain development milestones;
- banks in the PRC are prohibited from extending loans to real estate companies for the purposes of funding the purchase of land use rights;
- we cannot borrow from a bank in the PRC for a particular project unless we fund at least 20% of the estimated total capital required for that project from our own capital;
- we cannot borrow from a bank in the PRC for a particular project unless we obtain the land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit for that project;
- banks in the PRC are restricted from granting loans for the development of luxury residential properties;
- property developers are strictly prohibited from using the proceeds from a loan obtained from a local bank to fund property developments outside the region where that bank is located; and
- banks in the PRC are prohibited from accepting properties that have been vacant for more than three years as collateral for loans.

In addition, the People's Bank of China, or PBOC, adjusted the reserve requirement ratio for commercial banks six times in 2010, seven times in 2011 and twice through June 30, 2012. The reserve requirement ratio for commercial banks currently ranges from 10.5% to 20% with effect from May 18, 2012. Changes in the reserve requirement ratio affect the amount of funds that banks must hold in reserve against deposits made by their customers. Increase in such reserve requirement ratio will reduce the amount of commercial bank credit available to businesses in China, including us. In November 2009, the PRC government raised the minimum down-payment for land premiums to 50% and in March 2010, the PRC Ministry of Land and Resources stipulated that the minimum down-payment of land premium of 50% should be paid within one month after the signing of a land grant contract and the rest of the land premium should be fully paid within one year after the signing of a land grant contract. Such change of policy may constrain our cash otherwise available for additional land acquisition and construction.

The PRC government may introduce other measures that limit our access to additional capital. For example, in November 2007, China Banking Regulatory Commission, or CBRC, provided policy guidelines to the PRC banks and Chinese subsidiaries of foreign banks that loans outstanding as of December 31, 2007 should not exceed the level of outstanding loans as of October 31, 2007. This lending freeze may limit our ability to access additional loans or to rollover existing loans as they mature, and may also prevent or delay potential customers' ability to secure mortgage loans to purchase residential properties. In addition, on July 10, 2007, the

State Administration of Foreign Exchange, or SAFE, issued the Circular on Distribution of List of the First Group of Foreign-Invested Real Estate Projects Filed with the Ministry of Commerce (關於下發第一批通過商務部備案的外商投資房地產項目名單的通知) which restricts a foreign-invested property developer's ability to raise capital through foreign debt, if such developer is established after June 1, 2007 or increases its registered capital after June 1, 2007. Under this circular, our ability to utilize the proceeds of this offering to provide funding to our PRC operations is further limited.

We cannot assure you that we will be able to renew our current credit facilities or obtain sufficient funding at reasonable levels 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. Such failure may also increase our financing costs.

Our results of operations may fluctuate from period to period

For the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our turnover was RMB7,413.5 million, RMB18,215.1 million, RMB5,684.8 million (US\$894.8 million) and RMB1,222.4 million (US\$192.4 million), respectively. Our results of operations tend to fluctuate from period to period. The fluctuation in our results of operations is partly attributable to our revenue recognition policy. As we recognize revenue from a sale of property only upon delivery, and because the delivery of our properties varies according to our construction timetable, our revenue and results of operations may fluctuate more than those of property developers adopting a "percentage-of-completion" method of revenue recognition which allows revenue to be recognized over time. In light of the above, and since revenue from sales of properties has accounted for a majority of our total revenue, our results of operations and cash flow positions may not be comparable to future periods. The number of properties that we can develop or complete during any particular period may be limited due to the substantial capital required for land acquisition and construction, as well as the lengthy development periods required before positive cash flows may be generated. Furthermore, the completion and delivery of any project development may be adversely affected by a combination of factors, including adverse weather conditions, delays in obtaining requisite permits and approvals from relevant government authorities, as well as other factors beyond our control. Any of these factors may affect the timing of completion and delivery of our projects, as well as our cash flow position and recognition of revenue from our projects, thus adversely affecting our financial condition.

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

The economic slowdown and turmoil in the global financial markets that started in the second half of 2008 have had a negative impact on the world economy, which in turn has affected the PRC real estate industry and many other industries. In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these European nations to continue to service their sovereign debt obligations. On August 6, 2011, Standard and Poor's Ratings Services, or S&P, downgraded the rating for long-term United States debt to "AA+" from "AAA" for the first time in 70 years. The downgrade of United States debt by S&P, coupled with the economic turmoil in Europe and other parts of the world, may continue to adversely affect the global economy and financial markets.

The outlook for the world economy and financial markets remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the United States, the unemployment rate remains high, and recovery in the housing market remains subdued. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow, or both. In the Middle East, political unrest in various countries has resulted in economic instability and uncertainty. China's economic growth may slow down due to weakened exports.

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely affected, and may continue adversely affecting, property purchase and leasing activities, which may lead to a decline in the general demand for our properties and erosion of their sale or rental prices. In addition, any further tightening of liquidity in the global financial markets may negatively affect our liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets continue, our business, financial condition and results of operations may be adversely affected.

Our business may be adversely affected by changes in interest rates

We rely on borrowings to finance a substantial part of our project developments. Currently, our borrowings include loans from commercial banks in China. Many of our customers also need to finance their purchase of our properties through mortgage loans. Interest rates in the PRC have decreased several times recently. The PBOC has adjusted the benchmark one-year lending rate numerous times in the past in response to the changing PRC and global financial and economic conditions. We cannot assure you that the PBOC will decrease the benchmark one-year lending rate or that the interest rates at which financing will be available to us or our customers will decrease in the future. In addition, we cannot predict if and when interest rates in the PRC may increase. Furthermore, some of our borrowings carry interest based on inter-bank benchmarks, such as LIBOR or HIBOR. See “Description of Material Indebtedness and Other Obligations.” Any increase in the interest rates will increase our finance costs and also increase the costs of our customers to purchase our properties with mortgages and therefore adversely affect our business, financial conditions and results of operation. See “—The terms on which mortgages are available, if at all, may affect our sales.”

Our future development schedules and growth prospects may be affected if we are unable to identify suitable sites for future acquisition or development or to acquire sufficient land reserves

We have historically derived a significant portion of our revenue from sales of properties that we have developed. This revenue stream depends on the completion of, and our ability to sell, our properties. To maintain or grow our business in the future we will need to replenish our land reserves with suitable development sites. As we strategically shift our business focus to holding more investment properties, we also need to identify and purchase suitable sites. Our ability to identify and acquire suitable land sites is subject to a number of factors, some of which are beyond our control. Our business, financial condition and results of operations may be materially and adversely affected if we are unable to obtain land sites for development at prices that allow us to achieve reasonable returns upon the sale or leasing of developed properties to our customers.

The PRC government controls all new land supply in the PRC and regulates land sales in the secondary market. As a result, the policies of the PRC government towards land supply may adversely affect our ability to acquire land use rights for sites we seek to develop and could increase the costs of any acquisition. The PRC central and local governments may regulate the means by which property developers, including us, obtain land sites for property developments. Although we will continue to seek suitable development opportunities, the current or future regulatory climate may restrict our ability to engage in such developments in the future. See also “—Risks Relating to Our Industry—PRC government policies, regulations and measures intended to curtail the overheating of the property market may adversely affect our business.”

In addition, as our property development or acquisition continues in central Beijing and as we expanded into prime locations in Shanghai, the number of suitable sites for property development or acquisition will diminish, and competition for such sites may increase. Land prices have increased significantly in Beijing and Shanghai in recent years and may continue to increase in the future. There can be no assurance that we will be able to identify and acquire sufficient appropriate sites in the future at commercially acceptable prices, or at all. Any inability to identify and acquire sufficient appropriate sites for our land reserves would result in uncertainties in our future development and acquisition schedules, which in turn would have a material adverse effect on our future growth prospects, profitability and profit margins.

We face uncertainties when obtaining land sites through the acquisition of project companies

We have in the past, from time to time, obtained land sites for our projects through acquisition of project companies that held the land use rights. We may continue to obtain land sites through such acquisitions in the future. We cannot assure you that we have discovered, or will be able to discover, all existing or potential liabilities of the target project companies. In addition, the government may change the permitted use of the land sites to which such project companies own the land use rights after our acquisitions, rendering the land sites unsuitable for our property development purposes. If any of the undiscovered existing or potential liabilities of the acquired project companies are found to be material, or if we are unable to develop properties on the land sites to which the acquired project companies have the land use rights, our business, financial conditions and results of operations may be materially and adversely affected.

Our ability to lease or sell our properties may be affected if we are unable to deliver innovative properties suited to our customers' preferences

We believe our success depends in significant part on our ability to identify design trends and translate innovative design concepts into marketable properties in the PRC. If the innovative designs of our properties do not suit the tastes of customers in the markets in which we operate, our business reputation, financial condition and results of operations may suffer.

Our ability to lease or sell our properties may be affected if our brands are diluted as a result of imitation by our competitors

We believe our success depends in significant part on our brands which attract a nationwide and loyal customer base, increase our opportunity to secure land in prime locations in central Beijing and Shanghai and help drive sale prices for our properties. However, other companies have imitated and may continue to imitate our brands and properties by, for example, including the word "SOHO" in the name of their projects and promotional materials and developing buildings in styles similar to ours. These activities could affect our customers' perception of the distinctiveness and quality of our brands and lead to our brands being diluted and our business, financial condition and results of operations being adversely affected as a result.

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

The property industry in the PRC is heavily regulated by the PRC government. Property developers in China must comply with various requirements mandated by national and local laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, at various stages of the property development, a property developer must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities including a land use rights certificate, a construction land planning permit, a construction works planning permit, a construction works commencement permit and a pre-sale permit or confirmation of completion and acceptance. We cannot assure you that we will not encounter material delays or other impediments in fulfilling the conditions precedent to the approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the property industry in general or the particular processes with respect to regulatory approvals. There may also be delays on the part of the relevant regulatory bodies in reviewing our applications and granting approvals. If we fail to obtain, or encounter material delays in obtaining, the requisite governmental approvals, the completion of our developments and sale of our properties could be substantially disrupted or delayed and any such disruption or delay would materially and adversely affect our business, results of operations and financial condition. Furthermore, the relevant regulatory bodies may not approve the development plans for our projects and we may

need to amend such development plans to obtain the necessary permits. Amendment to our development plans may have a material and adverse effect on our business and results of operations.

We are exposed to contractual and legal risks related to pre-sales

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

We face risks related to the funding of the property developments as these are partly dependent on pre-sales

Historically, approximately 50% of our customers pay their purchase price without obtaining mortgage financing. In respect of projects being sold, we generally require 10% of the purchase price to be paid upon execution of the pre-sale contract, an additional payment up to 85% to 90% of the purchase price (inclusive of the initial payment) within four months thereafter, and any outstanding amount by delivery. For those customers who finance their purchases with mortgage financing, we generally require them to pay a minimum down payment of 50% of the unit purchase price within four months of the execution of the pre-sale contract for commercial properties, and receive the remaining purchase price from the bank with which the purchaser has entered into a mortgage agreement when the relevant property is delivered, which may be one to two years after the execution of the pre-sale contract. Proceeds from the pre-sale of our properties are an important source of financing for our property developments.

PRC regulations permit the pre-sale proceeds from one project to be applied only to fund that project. On August 5, 2005, the PBOC issued a report entitled “2004 Real Estate Financing Report” in which it recommended that the practice of pre-selling uncompleted properties be discontinued on the grounds that it creates significant market risks and generates transactional irregularities. These recommendations have no mandatory effect and we believe that they have not been adopted by any PRC Governmental authority. However, any restriction on our ability to pre-sell our properties, including any increase in the amount of up-front expenditure we must incur prior to obtaining the pre-sale permit, would extend the time period required for recovery of our capital outlay and would require us to seek alternative means to finance the various stages of our property developments. This, in turn, could have an adverse effect on our business, cash flow, financial condition and results of operations.

We cannot assure you that services performed by independent contractors will always meet our quality standards and timing requirement or will be available within our budget

We engage independent contractors to provide various services, including but not limited to construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. We generally select independent contractors through an open tender process. We cannot assure you that we will be able to obtain services from independent contractors within our budget or at all, or the services rendered by any of these independent contractors or subcontractors will always be satisfactory or meet our

quality and safety standards and our timing requirements. If the performance of any independent contractor is not satisfactory or is delayed, we may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of our projects. Moreover, the completion of our property developments may be delayed, and we may incur additional costs to replace a contractor due to a contractor's financial or other difficulties. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to complete our property development projects on time or within our budget, or at all

Property development projects require substantial capital expenditures prior to and during the construction period and the construction of a property project may take longer than a year before it generates positive cash flows through pre-sales, sales or leases. The progress and costs for a property development project can be adversely affected by many factors, including, without limitation:

- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- relocation of existing residents and/or demolition of existing structures;
- unforeseen engineering, design, environmental or geographic problems;
- shortages of materials, equipment, contractors and skilled labor;
- labor disputes;
- construction accidents;
- natural catastrophes;
- adverse weather conditions;
- discovery of artifacts in the construction site; and
- changes in government policies.

Construction delays or failure to complete the construction of a project according to its planned specifications, schedule or budget as a result of the above factors may affect our financial condition and results of operations and may also cause damage to our reputation. In addition, if a pre-sold property development is not completed on time, the purchaser may be entitled to damages for late delivery. We cannot assure you that we will not experience any significant delays in completion or delivery or that we will not be subject to any liabilities for any such delays. If the delay extends beyond the contractually specified period, the purchaser would be entitled to terminate the purchase contract and claim further damages. Therefore, any delay in completion of our property developments could have a material adverse impact on our business, financial condition and results of operations.

Our ability to sell our properties is indirectly affected by the marketing and leasing strategies adopted by our competitors

With respect to our properties developed for sale, they are favored by our buying customers due in part to our ability to arrange leasing for them after they have purchased our properties. Our speed in arranging leasing, as well as the terms of such leasing, has made our properties for sales more attractive. If our competitors adopt a more aggressive approach in marketing, pricing and leasing, this may affect the speed and terms of our leasing, which may ultimately affect our business, financial condition and results of operations.

Changes in laws and regulations in relation to the pre-sale of properties may adversely affect our business, financial condition and results of operations

Proceeds from the pre-sales of our properties have an impact on our cash flow and liquidity position. On August 5, 2005, the PBOC proposed in a report entitled “2004 Real Estate Financing Report (2004中國房地產金融報告)” that the practice of pre-selling uncompleted properties be discontinued, on the grounds that such practice creates significant market risks and generates transactional irregularities. While such proposal has not been adopted by any PRC government authorities and has no mandatory effect, we cannot assure you that the PRC government will not ban or impose material limitations on presales of uncompleted properties in the future. Future implementation of any restrictions on our ability to pre-sell our properties, including any requirements to increase the amount of up-front expenditure we must incur prior to obtaining the pre-sale permit, would extend the time required for recovery of our capital outlay and would force us to seek alternative means to finance the various stages of our property development. This, in turn, could have a material and adverse effect on our business, financial condition and results of operations.

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

We provide property management services with respect to properties we developed, including all of our investment properties and substantially all of the properties sold to our customers. We believe that property management is an integral part of our business and an important component to the successful marketing and promotion of our property developments. If, however, owners of the properties that we manage choose to terminate our property management services, our reputation and marketing strategies could be negatively affected. In addition, in the event the owners so choose to engage different property managers, and such managers fail to keep up the properties we developed, our reputation as a prime office property developer may be damaged.

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

We believe our brands and trademarks are critical to our success. Any unauthorized use of our brands, trademarks and other intellectual property rights could harm our competitive advantages and business. Historically, China has not protected intellectual property rights to the same extent as certain other countries, and infringement of intellectual property rights continues to pose a serious risk of doing business in China. Monitoring and preventing unauthorized use is difficult. The measures we take to protect our intellectual property rights may not be adequate. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and legal proceedings in China and abroad may be costly, time-consuming, distracting of our management resources and/or ineffective. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially.

If the value of our brand or image diminishes, our business and results of operations may be materially and adversely affected

Our brand and image play an integral role in all of our business operations. Our continued success in maintaining and enhancing our brand and image depends to a large extent on our ability to satisfy customer needs by further maintaining and improving the quality of our property services across our operations, continuing to be innovative in design, as well as our ability to respond to competitive pressures. If we are unable to satisfy customer needs or if our public image or reputation is otherwise diminished, our business transactions with our customers may decline which could in turn adversely affect our results of operations.

Our indebtedness could have an adverse effect on our financial condition, diminish our ability to raise additional capital to fund our operations and limit our ability to explore business opportunities

We maintain a certain level of indebtedness to finance our operations. As of June 30, 2012, the outstanding balance of our loans amounted to RMB11,524 million (US\$1,814 million). See “Description of Material Indebtedness and Other Obligations.” Our indebtedness described above could have an adverse effect on us, such as:

- requiring us to dedicate a large portion of our cash flow from operations to fund repayments on our debt, thereby reducing the availability of our cash flow to expand our business;
- increasing our vulnerability to adverse general economic or industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- limiting our ability to raise additional debt or equity capital in the future or increasing the cost of such funding;
- restricting us from making strategic acquisitions or exploring potential business opportunities; and
- making it more difficult for us to satisfy our obligations with respect to our debt.

We have incurred and will continue to incur a significant amount of finance costs in relation to our indebtedness. A significant portion of our finance costs is capitalized rather than being expensed at the time it is incurred to the extent such costs are directly attributable to the acquisition and construction of a project or a projected phase.

In addition, as our indebtedness will require us to maintain an adequate level of cash flow from operations to satisfy our debt obligations as they become due, any decrease in our cash flow from operations in the future may have a material and adverse effect on our financial condition. Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to satisfy our debt obligations as they become due. However, we cannot guarantee that sufficient cash flow will be generated for these purposes. If we are unable to repay our indebtedness and/or make timely payment, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all. Our ability to meet any financial covenants may be affected by events beyond our control. We cannot assure you that we will be able to meet these covenants. Such restrictions in our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future

financing, fund needed capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

The terms on which bank mortgages are available to our customers, if at all, may affect our sales

Most of the purchasers of our properties rely on mortgage financing from banks. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase down-payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unattractive or unavailable to potential property purchasers.

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

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

We guarantee mortgage loans provided to our purchasers and may be liable to the mortgagee banks if our purchasers default on their mortgage loans

We arrange for various domestic banks to provide mortgage loans to the purchasers of our properties. According to market practice, domestic banks require us to guarantee these mortgage loans until the relevant property ownership certificates are issued, which generally takes place within one to two years after we deliver possession of the relevant property to the purchasers, or until the loans are fully repaid, at which time such guarantees are released. In line with industry practice, we do not conduct independent credit checks on our customers but rely instead on the credit checks conducted by the mortgagee banks. As of December 31, 2009, 2010 and 2011 and June 30, 2012, our outstanding guarantees on the mortgage loans of our purchasers amounted to RMB3,702 million, RMB6,587 million, RMB4,776 million (US\$751.8 million) and RMB3,442 million (US\$542 million), respectively. The default rates on the mortgage loans provided to the purchasers of our properties against the total guarantees we provided in connection with such mortgage loans were negligible during the three years ended December 31, 2011 and the six months ended June 30, 2012. If a purchaser defaults under the mortgage loan and the mortgagee bank calls on our relevant guarantee after it deals with the relevant property through a default auction, we are required to repay the outstanding amount owed by the purchaser to the mortgagee bank under the mortgage loan, the mortgagee bank will assign its rights under the loan and the mortgage to us and we have full recourse to the property. Our business, results of operations and financial condition could be materially and adversely affected to the extent that there is a material depreciation in the value of the mortgaged properties or if we are unable to re-sell such properties at a price at least equal to the mortgage amount or at all due to unfavorable market conditions or other reasons.

As our property sales are primarily focused on large-scale office properties, our revenue derived from sales of these properties is non-recurring and our results of operations may vary from period to period

In terms of sales of property, we primarily focus on developing and selling large-scale office properties. As we derived a substantial amount of revenue from the sale of these properties, a substantial portion of our revenue is non-recurring. In addition, because of our focus on developing a small number of large-scale properties, our results of operations may vary more significantly than those of property developers with a greater number of smaller-scale projects. Furthermore, because the properties that we build to sell are primarily large-scale office property developments, we cannot assure you that each of our existing or future developments will be successful or that any such development will not encounter difficulties. Due to the amount of capital required and costs incurred or to be incurred in each property development, we are financially exposed in relation to such developments and, in the event that any of our existing or future large-scale property developments is unsuccessful, our business, financial condition and results of operations may be adversely affected. In addition, we may not be able to successfully complete the projects that we are currently developing or plan to develop. At any point in the planning or development of a project we could face, among other things, regulatory changes, market downturn, competitive pressures, an inability to procure required PRC Government approvals or required changes in our project development practice that could delay, increase the cost of, or prevent, the completion of any such projects. We may commit significant time and resources to a project before determining that we are unable to complete it successfully, which could result in a loss of some or all of our investment in that project. We may also be required to pay compensation to the purchasers who bought our properties at the pre-sale stage if we fail to complete our projects within the stipulated deadlines.

Any disputes with our joint venture or project development partners may materially and adversely affect our business

We carry out and plan to carry out some of our business through joint ventures or in collaboration with third parties. Such joint venture arrangements or collaboration involve a number of risks, including:

- disputes with our partners in connection with the performance of their obligations under the relevant project, joint venture or cooperative property development agreements;
- disputes as to the scope of each party's responsibilities under these arrangements;
- financial difficulties encountered by our partners affecting their ability to perform their obligations under the relevant project, joint venture or cooperative property development agreements with us; or
- conflicts between the policies or objectives adopted by our partners and those adopted by us.

Any of these and other factors may materially and adversely affect our business.

We may be required to forfeit land to the PRC government for failure to comply with the terms of the land grant contracts

Under the PRC laws and regulations, if a property developer fails to develop land according to the terms of the land grant contract, including those relating to payment of fees, designated use of land and schedule for commencing and completing the developments, the relevant government authorities may issue a warning to or impose a penalty on the developer or require the developer to forfeit the land. Specifically, under current PRC laws and regulations, if property developers fail to commence development for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice to the property developers and impose an idle land fee on the land of up to 20% of the land premium. If a property developer fails to commence development for more than two years from the commencement date

stipulated in the land grant contract, the land may be subject to forfeiture to the PRC government. Moreover, even if the property developer commences the land development in accordance with the land grant contract, the relevant land will nonetheless be treated as idle land if (i) the developed GFA on the land is less than one-third of the total GFA of the project under the land grant contract or the total capital invested is less than one-fourth of the total estimated investment of the project under the land grant contract and (ii) the land development has been suspended for over one year without governmental approval.

During the three years ended December 31, 2011 and up to June 30, 2012, we were not subject to any penalty for late payment of land premiums and were not required to forfeit any land nor have we received any warning from the relevant governmental authorities or paid any penalties as a result of failing to commence development within two years of the relevant land grant contract. While we have complied with all development plans and payment obligations, there have been circumstances where the development of a portion of land for which our Group was granted land use rights was delayed beyond the date stipulated in the relevant land grant contract. As confirmed by relevant government authorities, in each case such delays were caused by force majeure, acts of government or preliminary work that was required to be undertaken prior to the commencement of development. According to relevant PRC laws and regulations, any delay in the commencement of development that can be attributed to any of the above factors will not result in the forfeiture of idle land and land grant deposits, or the imposition of any other penalty. However, we cannot assure you that circumstances leading to forfeiture of land or delays in the completion of a property development may not arise in the future. If we are required to forfeit land, we will not be able to continue our property development on the forfeited land, recover the costs incurred for the initial acquisition of the forfeited land or recover development costs and other costs incurred up to the date of forfeiture.

We are required to deliver individual property ownership certificates in a timely manner and the failure to do so may result in claims against us

Property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within one to two years after delivery of the property or within a time frame set out in the relevant sale and purchase agreement. Property developers, including us, generally elect to specify the deadline for the delivery of the individual property ownership certificates in the sale and purchase agreements to allow sufficient time for the application and approval processes. Under current regulations, property developers are required to submit requisite governmental approvals in connection with their property developments, including a land use rights certificate, a certificate evidencing the construction has met the requirements of relevant planning permits, a certificate evidencing the construction has completed and a property survey report, to the local bureau of land resources and housing administration after the receipt of the completion and acceptance certificate for the relevant properties and to apply for the general property ownership certificate in respect of these properties. Property developers are then required to submit, within regulated periods after delivery of the properties, the relevant property sale and purchase agreements, identification documents of the purchasers, proof for payment of deed tax, and the general property ownership certificate, to the bureau for review prior to the issuance of the individual property ownership certificates in respect of the properties purchased by the respective purchasers. Delays by the various administrative authorities in reviewing the application and granting approval as well as other factors may affect timely delivery of the general as well as individual property ownership certificates. Property developers, including us, may become liable for monetary penalties to purchasers for late delivery of the individual property ownership certificates due to delays in the administrative approval processes or for any other reason beyond our control. We cannot assure you that we will be able to timely deliver all property ownership certificates in the future or that we will not be subject to any liabilities as a result of any late deliveries of property ownership certificates.

The relevant PRC tax authorities may challenge the basis on which we have been paying our LAT obligations and our results of operations and cash flows may be materially and adversely affected

All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to the land appreciation tax (“LAT”) at progressive rates ranging from 30% to 60% of the “appreciated value of the property,” as such term is defined in the relevant tax laws. There is an exemption for the sale of ordinary residential properties if the appreciated value does not exceed 20% of the total deductible expense items allowed under the relevant LAT regulations. This exemption is not available for sales of luxury residential properties, villas and commercial properties. It is not clear whether the residential portion of our mixed residential and commercial developments will be eligible for the exemption available to ordinary residential properties.

On December 28, 2006, the State Administration of Taxation (the “SAT”) issued the Notice of the State Administration of Taxation on Issues Concerning the Administration of the Settlement of Land Appreciation Tax of Real Estate Development Enterprises (國家稅務總局關於房地產開發企業土地增值稅清算管理有關問題的通知), which became effective on February 1, 2007. The Notice sets forth, among other things, methods of calculating LAT and a time frame for settlement of LAT. On May 12, 2009, the SAT issued the Provisions on Administration of the Settlement of Land Appreciation Tax (土地增值稅清算管理規程), which became effective on June 1, 2009 and stipulates in detail the procedures for settlement of LAT and methods of calculating LAT. Furthermore, in May 2010, the SAT issued two notices emphasizing issues concerning (i) income verification in connection with the settlement of LAT; (ii) the calculation of applicable exemptions under certain circumstances; and (iii) the minimum LAT prepayment rate applicable to different types of properties in different localities. We believe we have accrued all LAT payable on our property sales and transfers in accordance with the progressive rates specified in relevant PRC tax laws, less amounts previously paid under the levy method applied by relevant PRC local tax authorities. However, provisioning for LAT requires our management to use a significant amount of judgment with respect to, among other things, the anticipated total proceeds to be derived from the sale of the entire phase of the project or the entire project, the total appreciation of land value and the various deductible items. As a result, the relevant PRC local tax authorities may not agree with our estimates or the basis on which we calculate our LAT liabilities. If the LAT provisions we have made are substantially lower than the actual LAT amounts assessed by the relevant PRC local tax authorities in the future, our results of operations and cash flows will be materially and adversely affected.

We are subject to multiple regulations of the PRC government authorities and any non-compliance or perceived non-compliance with these regulations may have a material and adverse effect on our business, financial condition and results of operations

Our business is regulated by various PRC government authorities. If any PRC authority believes that we or any of our suppliers or contractors in the course of our operations are not in compliance with PRC regulations, it could delay or even shut down our construction or sales operations, refuse to grant or renew any necessary approvals or licenses, institute legal proceedings to seize our properties, enjoin future actions or impose civil and/or criminal penalties, pecuniary or otherwise, against us, our officers or our employees. Any such action by the PRC governmental authorities would have a material adverse effect on our business, causing delays to our development projects, or terminating them altogether. Historically, we have had instances of non-compliance, such as inconsistent land use and lack of permits and certificates, during the development of some of our projects. We cannot assure you that the measures we have taken to enhance the effectiveness of our corporate governance have or will eradicate all non-compliance. In recent years, the PRC government has implemented many new laws and regulations or made amendments to existing regulations concerning property developers. We cannot guarantee that our development projects are fully compliant with the laws and regulations. If we are found to have breached, or are accused of having not complied with, or in the future do not comply with, any applicable PRC laws and regulations, we may be subject to the imposition of penalties or even suspension of business and confiscation of any acquired land. In such event, our business and reputation may be materially and adversely affected.

We are dependent on the contribution of our founders, Mr. Pan Shiyi and Ms. Zhang Xin

Our identity and image are closely associated with Mr. Pan Shiyi and Ms. Zhang Xin, our co-founders and executive Directors. Mr. Pan, who is also chairman of our board, and Ms. Zhang, who is also our chief executive officer, are married to each other and are central to our project development efforts and management. Ms. Zhang is the sole beneficiary under a trust that indirectly holds a majority of our shares, and Mr. Pan has minority interests in some of our PRC subsidiaries. We depend heavily on Mr. Pan's more than a decade-long experience and relationships within the PRC property industry to provide us with critical know-how throughout the development process, and on Ms. Zhang's relationships within the international architectural community to develop the design innovations that are fundamental to our business. In addition, the 2011 Credit Agreement and the 2012 Credit Agreement contain covenants that require that Mr. Pan and Ms. Zhang remain our chairman and chief executive officer, respectively. As a result, the loss of the services of either Mr. Pan or Ms. Zhang, or any damage to the reputation of Mr. Pan or Ms. Zhang, could have a material adverse effect upon our ability to successfully identify, design and develop properties, maintain our reputation within the industry and stay in compliance with the relevant financing agreements. Our business, financial condition and results of operations may be adversely affected as a result.

We face competition for qualified employees in the property industry which may make it difficult for us to retain and recruit enough qualified employees for the expansion of our business

Our long-term success depends on our ability to attract and retain qualified employees. We require a large number of qualified employees for each stage of our property development process and for our property operation services, property agency services and hotel services businesses. We expect to recruit more qualified employees as we continue to strengthen our existing business or expand our business into new geographical regions and into other segments of the real estate industry. The growth of the property industry in China has created an increasing demand for qualified employees in each segment of the property industry. While we have implemented certain measures aimed to promote effective recruitment and retention of our employees, we cannot assure you that these measures will be effective. If we are unable to recruit or retain a sufficient number of qualified employees for the continuation and expansion of our business, our business and prospects may be adversely affected.

We may suffer losses arising from uninsured risks

We do not carry insurance covering construction-related personal injuries. In addition, we do not carry insurance for any liability arising from allegedly tortious acts committed on work sites. We cannot assure you that we would not be sued or held liable for damages due to such tortious acts. Moreover, there are certain losses for which insurance is not available on commercially practicable terms, such as losses suffered due to earthquake, typhoon, flooding, war and civil disorder. If we suffer from any losses, damages or liabilities in the course of our operations and property development, we may not have sufficient funds to cover any such losses, damages or liabilities or to replace any property development that has been destroyed. In addition, any payment we make to cover any losses, damages or liabilities may have a material adverse effect on our business, financial condition and results of operations.

The total GFA of some of our property developments exceeds the original authorized area and the excess GFA is subject to governmental approval and payment of additional land premium

When the PRC government grants the land use rights for a piece of land, it will specify in the land grant contract the designated use of the land and the total GFA that the developer may develop on this land. The actual GFA constructed, however, might have exceeded the total GFA authorized in the land grant contract due to various factors such as subsequent planning and design adjustments. The amount of GFA in excess of the

authorized amount is subject to approval when the relevant authorities inspect the properties after their completion and the developer may be required to pay additional land premium in respect of such excess GFA. If we fail to obtain the completion certificate due to such excess GFA, we will not be allowed to deliver the relevant properties to the purchasers or recognize the revenue from the relevant pre-sold properties and may also be subject to liabilities under the pre-sale contracts. We cannot assure you that the total constructed GFA of our existing projects under development or any future property developments will not exceed the relevant authorized GFA upon completion or that we will be able to pay the additional land premium and obtain the completion certificate on a timely basis.

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

As of October 19, 2012, our controlling shareholder, Capevale Limited held 64.86% of our outstanding shares. Capevale Limited, in turn, is beneficially owned by Ms. Zhang Xin. Capevale Limited, and ultimately Mr. Pan Shiyi and Ms. Zhang, has and will continue to have the ability to exercise a controlling influence over our business, and may cause us to take actions that are not in, or may conflict with, our or our creditors', including the holders of the Notes, best interests, including matters relating to our management and policies and the election of our directors and senior management. Capevale Limited, and ultimately Mr. Pan and Ms. Zhang, will be able to influence our major policy decisions, including our overall strategic and investment decisions, by controlling the election of our directors and, in turn, indirectly controlling the selection of our senior management, determining the timing and amount of any dividend payments, approving our annual budgets, deciding on increases or decreases in our share capital, determining our issuance of new securities, approving mergers, acquisitions and disposals of our assets or businesses, and amending our articles of association.

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

We may be involved in disputes with various parties involved in the development and sale of our properties, including business partners, contractors, suppliers, construction workers and purchasers. These disputes may lead to legal or other proceedings and may result in substantial costs, delays in our development schedule, and the diversion of resources and management's attention, regardless of the outcome. These disputes and legal and other proceedings may materially and adversely affect our reputation, business, results of operations and financial condition. The judicial process involved may decrease the time we devote to normal and customary operating functions. If we fail to resolve these disputes in our favor, we may incur substantial losses and face significant liabilities. We may also have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decisions that result in penalties and/or delay our property developments.

On June 4, 2012, we were served with a summons issued by Shanghai No. 1 Intermediate People's Court in relation to an action initiated by a subsidiary of Fosun International Limited, or Fosun Group, with respect to our indirect acquisition of a 50% equity interest in Shanghai Haizhimen Property Investment Management Co., Ltd., or Shanghai Haizhimen, which indirectly holds the Bund 8-1 Land. We conducted the acquisition through an equity transfer and loan assignment agreement entered into in December 2011 with various vendors, pursuant to which we acquired from the vendors the entire equity interest in various shareholders of Shanghai Haizhimen which hold an aggregate 50% equity interest in Shanghai Haizhimen. As a result, following the completion of the acquisition, we treat Shanghai Haizhimen as a jointly controlled entity. Fosun Group holds the other 50% equity interest in Shanghai Haizhimen. Fosun Group took the view that our indirect acquisition of the 50% interest in Shanghai Haizhimen breached its preemptive right as an existing 50%-interest shareholder to acquire the same interest, and pleaded the court to invalidate our acquisition. We take the view that the acquisition did not involve a transfer of equity interest in Shanghai Haizhimen and therefore that the acquisition of the entire equity interest in the shareholders of Shanghai Haizhimen did not constitute a breach of any

pre-emptive rights as alleged by Fosun Group. As of the date of this offering memorandum, the legal proceedings are ongoing. We cannot assure you that the PRC court hearing the case will share our view and deny Fosun Group's challenge of our acquisition. In case Fosun Group prevails in its suit, the acquisition may be required to be unwound, with Shanghai Haizhimen ceasing to be our jointly controlled entity and the consideration we paid for the indirect acquisition of the 50% interest in Shanghai Haizhimen refunded to us from the vendors. In this event, we will no longer be entitled to the 50% interest in Bund 8-1 Land, which may disrupt our business expansion plans in Shanghai and in turn materially and adversely affect our financial condition, operating results and future prospects.

Furthermore, if our PRC subsidiaries are not in full compliance with PRC laws and regulations, including those in relation to registered share capital, business licenses, operation permits and their articles of association, their operations may be adversely affected if they are subject to fines or sanctions imposed by PRC authorities as a result. In such cases, our results of operations and cash flow could be materially and adversely affected.

We are subject to potential environmental liability that could result in substantial costs

Property developers in the PRC are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations which apply to any given project development site vary greatly according to the location, the environmental condition and the present and former uses of the site, as well as adjacent properties. The relevant property development project may be delayed due to our efforts to comply with environmental laws and regulations. In some environmentally sensitive regions or areas, the compliance costs could be prohibitively expensive. In addition, each property development project is required by the relevant PRC laws and regulations to undergo environmental assessments and to submit an environmental impact assessment report to the relevant government authorities for approval before commencement of construction. Failure to obtain such approval prior to construction may result in suspension of construction and a penalty amounting to RMB50,000 to RMB200,000 for each project.

The environmental investigations conducted relating to each of our property development projects to date have not revealed any material environmental liability. However, it is possible that these investigations did not reveal all environmental liabilities and there may be environmental liabilities of which we are unaware that may have a material adverse effect on our business, financial condition or results of operations.

The valuation attached to our property interests contains assumptions that may or may not materialize

Under HKFRS, we are required to reassess the fair value of our completed investment properties on every balance sheet date. Our valuations are generally based on a direct comparison approach, under which our investment properties are directly compared with other comparable properties of similar size, character and location, in order to provide a fair comparison of capital values, and an income approach that takes into account the net rental income of properties. Gains or losses arising from changes in the fair value of our investment properties are included in our consolidated statements of comprehensive income in the period in which they arise. Our investment properties were revalued as of December 31, 2009, 2010 and 2011 and as of June 30, 2012, respectively, on an open market and existing use basis which reflected market conditions on those dates. The valuations are based on certain assumptions which, by their nature, are subjective and uncertain and may differ materially from actual results. For example, with respect to properties under development and planned for future development, the valuations are based on assumptions that (1) the properties will be developed and completed in accordance with the development proposals, (2) regulatory and governmental approvals for the proposals have been obtained, (3) all premiums in connection with the properties have been paid and the properties are free of encumbrances and other restrictions and (4) we are in possession of the proper legal titles and are entitled to transfer the properties at no extra land premium. For properties owned by the project companies in which we have an attributable interest of less than 100%, the valuation assumes that the interest of the relevant project companies in the aggregate value of the property or business is equal to our proportionate ownership interest in

the relevant company or business. Accordingly, the valuations are not a prediction of the actual value we expect to realize from these properties. Unanticipated results or changes in particular property developments, or changes in general or local economic conditions or other relevant factors, including changes in government regulations, could affect such values.

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

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

We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income

The Enterprise Income Tax Law (“EIT Law”) and the implementation regulations to the EIT Law issued by the PRC State Council became effective on January 1, 2008. Under the EIT Law, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate on their global taxable income. It is not entirely clear whether such global income would exclude income that was generated by PRC subsidiaries. It is, however, currently unclear under what situations an enterprise’s “de facto management body” would be considered to be located in China. The SAT promulgated the Circular on Identifying Chinese-Controlled Offshore Enterprises as Chinese Resident Enterprises in Accordance with Criteria for Determining Place of Effective Management (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) in April 2009 which defines the term “management body” in respect of enterprises that are established offshore by PRC enterprises. However, no definition of “management body” is provided for enterprises established offshore by private individuals or foreign enterprises such as our Company. As such, there is uncertainty whether we will be deemed to be a PRC “resident enterprise” for the purposes of the EIT Law. Substantially all of our management is currently based in China, and therefore, we may be treated as a PRC “resident enterprise” for enterprise income tax purposes. The tax consequences of such treatment are currently not entirely clear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the EIT Law or the implementation regulations.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have; any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and such dividends may be subject to PRC taxation

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur, including the Notes. The ability of our direct and indirect subsidiaries to pay dividends to their shareholders (including us, the Subsidiary Guarantors and the JV Subsidiary Guarantors, if any) is subject to applicable laws and restrictions contained in the debt instruments and obligations of such subsidiaries. Furthermore, under applicable PRC laws, rules and regulations, payment of dividends by our PRC subsidiaries is permitted only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Under PRC laws, rules and regulations, all of our

PRC subsidiaries are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their respective statutory capital reserve funds until the accumulative amount of such reserves reaches 50% of their respective registered capital. As a result, all of our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. As of June 30, 2012, our restricted reserves totaled RMB442 million (US\$69.6 million). Our restricted reserves are not distributable as cash dividends. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, pay dividends or otherwise fund and conduct our business.

Under the EIT Law and its implementing regulations issued by the State Council, a PRC income tax rate of 10% is applicable to dividends paid by Chinese enterprises to “non-resident enterprises,” subject to the application of any relevant income tax treaty that the PRC has entered into. There is uncertainty whether we or any of our non-PRC subsidiaries will be considered “non-resident enterprises” for the purposes of the EIT Law. If we or our non-PRC subsidiaries are considered “non-resident enterprises,” any dividend that we or any such subsidiary receive from our PRC subsidiaries may be subject to PRC taxation at the rate of 10% (or a lower treaty rate, if any), which would further impact the ability of our PRC subsidiaries to pay dividends to their shareholders (including us, the Subsidiary Guarantors and the JV Subsidiary Guarantors, if any).

RISKS RELATING TO OUR INDUSTRY

PRC government policies, regulations and measures intended to curtail the overheating of the property market may adversely affect our business

Along with the economic growth in China, investments in the property sectors have increased significantly in the past few years. In response to concerns over the scale of the increase in property investments, the PRC government has introduced policies to curtail property development. On March 26, 2005, the General Office of the State Council promulgated the Circular on Duly Stabilizing the Prices of Residential Properties (關於切實穩定住房價格的通知) requiring measures to be taken to restrain the prices of residential properties from increasing too fast. On May 9, 2005, the General Office of the State Council approved the Opinion on Improving the Works on Stabilizing the Prices of Residential Properties (關於做好穩定住房價格工作的意見) issued by seven departments of the State Council, setting out guidelines for the relevant PRC authorities to control the rapid growth in the residential property market. On May 24, 2006, the General Office of the State Council approved the Opinions on Adjusting Housing Supply Structure and Stabilization of Housing Prices (關於調整住房供應結構穩定住房價格的意見) issued by nine departments of the State Council. On September 27, 2007, PBOC and CBRC issued the Notice on Strengthening the Management of Commercial Real Estate Credit and Loans (關於加強商業性房地產信貸管理的通知). These measures, among others, imposed various restrictions on lending funds to property developers and extending mortgage loans to property purchasers. These measures also provide that the total area of units with a GFA of less than 90 square meters must equal at least 70% of a residential housing project’s total GFA. On April 17, 2010, the State Council issued the Notice on Firmly Preventing Property Price from Increasing too rapidly in Certain Cities (國務院關於堅決遏制部分城市房價過快上漲的通知) (the “April 17 Notice”), pursuant to which the State Council raised the minimum down payment for second home purchases to 50% and set a minimum 30% down payment on first homes with a GFA of more than 90 square meters. The notice also stipulates that interest rates for mortgage loans for second homes cannot be lower than 110% of PBOC benchmark lending rate. We cannot assure you that the governmental authorities will not require us to modify our development plans or that these new measures will not adversely impact our business due to the uncertainties involved in implementing these new measures.

On July 11, 2006, the MOC, MOFCOM, the NDRC, the PBOC, SAIC and SAFE jointly issued the Opinion on Regulating Admittance and Management of Foreign Investment in Real Estate (關於規範房地產市場外資准入和管理的意見), or the 171 Opinion which aims to regulate access by foreign investors to the domestic property market and to strengthen supervision over property purchases by foreign-invested enterprises.

The 171 Opinion provides for, among other things, stricter standards for a foreign institution or an individual when purchasing real property in the PRC that is not intended for personal use. On May 23, 2007, MOFCOM and SAFE promulgated the Circular on Further Strengthening and Regulating the Approval and Supervision of Real Estate Industry with Direct Foreign Investment (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 the “Notice 50,” which imposed additional restrictions and requirements on foreign investment in the real estate industry.

In addition, on January 27, 2011, the governments of Shanghai and Chongqing issued their respective measures for implementing pilot property tax schemes, which became effective on January 28, 2011. According to the Circular Regarding the Opinion Concerning the Key Issues of Economic Structure Reform in 2012 (轉發關於2012年深化經濟體制改革重點工作意見的通知) issued by the State Council on March 18, 2012, the scope of such pilot property tax schemes shall be expanded to more cities or districts. Such new tax policies, once enacted, may further curtail the market demand for residential properties and as a result, our business and future prospects may be materially and adversely affected.

In March 2011, the National Development and Reform Commission promulgated the Rules of Marked Price for Sales of Commodity Houses (商品房銷售明碼標價規定), which was effective on May 1, 2011, requiring the sale of commodity houses to mark prices on a per unit basis, and publicly disclose the relevant fees which will be charged and other details relating to the sale price of such unit.

Although the various control measures are intended to promote more balanced property development in the long term, we cannot assure you that these measures will not adversely affect the development and sales of our properties. Many of the property industry policies carried out by the PRC government are unprecedented and are expected to be amended and revised over time. Other political, economic and social factors may also lead to further adjustments and changes of such policies. The PRC government could adopt additional and more stringent industry policies, regulations and measures in the future, which could further slow down the property development in China. Our results of operations may be materially affected by these factors. If we fail to adapt our operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt our business, reduce our sales or average selling prices, or cause us to incur additional costs, our business prospects, results of operations and financial condition may be materially and adversely affected.

The PRC government has imposed restrictions on the ability of PRC property developers to receive offshore funds which may delay or prevent us from deploying the funds raised in this offering to our business in China and therefore materially and adversely affect our liquidity and our ability to fund and expand our business

On July 10, 2007, the General Affairs Department of SAFE issued the Circular on Distribution of List of the First Group of Foreign-Invested Real Estate Projects Filed with the Ministry of Commerce (關於下發第一批通過商務部備案的外商投資房地產項目名單的通知). The notice stipulates, among other things, (i) that SAFE will no longer process foreign debt registrations or applications for the purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained authorization certificates from and registered with MOFCOM on or after June 1, 2007 and (ii) that SAFE will no longer process foreign exchange registrations (or alteration of such registrations) or applications for the sale and purchase of foreign exchange submitted by real estate enterprises with foreign investment which obtained approval certificates from local government commerce departments on or after June 1, 2007 but which did not register with MOFCOM. This new regulation restricts the ability of foreign-invested real estate companies to raise funds offshore for the purpose of injecting such funds into the companies by way of shareholder loans. Nonetheless the SAFE notice does not restrict property developers from receiving foreign capital by way of increasing the registered capital of existing foreign-invested companies or through the establishment of new foreign-invested real estate companies, provided that such registered capital increase or new company establishment has been duly approved by local branches of MOFCOM and registered with MOFCOM or duly approved by MOFCOM.

Like other foreign-invested PRC property developers we are subject to the notice. We intend to repatriate any offshore funds that we may raise in the future by increasing the registered capital of our existing subsidiaries or by establishing new subsidiaries. Following the implementation of the SAFE notice, we have successfully remitted foreign funds from our offshore holding entities into a number of our PRC subsidiaries through increasing their respective registered capitals and registering each such increase with MOFCOM. However, we cannot assure you that we will be able to obtain in a timely manner, if at all, all necessary foreign-exchange approval certificates for the deployment of offshore funds, or that we will be able to obtain in a timely manner, if at all, any registration of new foreign-invested subsidiaries or additional registered capital increases in the future. Further, we cannot assure you that the PRC government will not introduce new policies that further restrict our ability to repatriate to China the funds raised in this offering. If we fail to repatriate to China any or all of the net proceeds raised in this offering, our liquidity and our ability to fund and expand our business could be adversely and materially affected.

In addition, any capital contributions made to our operating subsidiaries in China are also subject to the foreign investment regulations and foreign exchange regulations in the PRC. For example, in accordance with a circular promulgated by the SAFE in August 2008 with respect to the administration of conversion of foreign exchange capital contribution of foreign invested enterprises into Renminbi (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知), unless otherwise permitted by PRC laws or regulations, Renminbi capital converted from foreign exchange capital contribution can only be applied to the activities within the approved business scope of such foreign-invested enterprise and cannot be used for domestic equity investment or acquisition. Pursuant to this offering memorandum, we may encounter difficulties in increasing the capital contribution to our project companies and subsequently converting such capital contribution into Renminbi for equity investment or acquisition in China. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make capital contributions to our project companies as their general working capital or to fund their operations may be negatively affected, which could materially and adversely affect our results of operations.

We are heavily dependent on the performance of the property market in China, which is at a relatively early stage of development

The property development industry and the ownership of private property in the PRC are still in a relatively early stage of development. Although demand for private property in the PRC has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. It is extremely difficult to predict how much and when demand will develop, as many social, political, economic, legal and other factors, all of which are beyond our control, may affect market development. The level of uncertainty is increased by the limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC. The lack of a liquid secondary market for private property may discourage the acquisition of new properties as resale is not only difficult, but can also be a long and costly process. The limited amount of property mortgage financing available to PRC individuals, compounded by the lack of security of legal title and enforceability of property rights may inhibit demand for property developments, property operation services and property agency services.

Increase in resettlement costs and the inability to reach resettlement agreements associated with certain property developments may materially and adversely affect our business, financial condition and results of operations

Land parcels acquired by property developers for future development may have existing buildings or other structures or be occupied by third parties. In accordance with the Building on State-owned Land Expropriation and Compensation Regulation (國有土地上房屋徵收與補償條例) and applicable local regulations, a property developer in the PRC is required to enter into a written agreement with the owners or residents of existing buildings subject to demolition for development, directly or indirectly through the local government, and to

provide compensation for their relocation and resettlement. The compensation payable by the property developer is calculated in accordance with a pre-set formula determined by the relevant provincial authorities, which may be subject to change. If such compensation formula is changed and the levels of compensation increased, land acquisition costs for property developers may be subject to substantial increases. In addition, if property developers or the local government fail to reach an agreement over compensation with the owners or residents of the buildings subject to demolition, any party may apply to the relevant housing resettlement authorities for a ruling on the amount of compensation, which may delay a project's timetable. Such delays may lead to an increase in cost and a delay in the expected cash inflow resulting from pre-sales of the relevant projects. If we purchase land parcels in the future and become subject to such regulations, and if we experience an increase in resettlement costs or experience delay due to our inability to reach a resettlement agreement, our business, financial condition and results of operations may be materially and adversely affected.

If we are not properly insulated from the rising cost of labor, construction materials or building equipment, our results of operations may be adversely affected

As the result of economic growth and the boom in the property industry in the PRC, wages for construction workers and the prices of construction materials and building equipment have experienced substantial increases in recent years. In addition, the PRC Labor Contract Law (中華人民共和國勞動合同法) that came into effect on January 1, 2008 enhanced the protection for employees and increased employers' liability which may further increase our labor costs. Under the terms of most of our construction contracts, the construction contractors are responsible for the wages of construction workers and procuring construction materials for our property development and bear the risk of fluctuations in wages and construction material prices during the term of the relevant contract. The contractors are also liable if they do not purchase work injury insurance for their workers as required. However, we are exposed to the price volatility of labor and construction materials to the extent that we periodically enter into new or renew existing construction contracts at different terms during the life of a project, which may span over several years, or if we choose to hire the construction workers directly or purchase the construction materials directly from suppliers. We are also exposed to the price volatility of building equipment and materials used in properties developed by us because we usually procure such equipment and materials ourselves. Furthermore, to the extent pre-sell our properties prior to their completion, we will be unable to pass the increased costs on to purchasers of our properties if the construction costs increase subsequent to the time of such pre-sale. If we are unable to pass on any increase in the cost of labor, construction materials and building equipment to either our construction contractors or to the purchasers of our properties, our results of operations may be adversely affected.

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

Facts and statistics in this offering memorandum relating to China's economy and the industries in which we operate are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or their respective advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon.

RISKS RELATING TO THE PRC

Changes in PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects

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

Uncertainties with respect to the PRC legal system could have a material adverse effect on us

Our business and operations are primarily conducted in China and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protection to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention.

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

The exchange rates between the Renminbi and the Hong Kong dollar, the U.S. dollar and other foreign currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall by as much as 0.5% each day. The floating band was further widened to 1.0% on April 16, 2012. As of June 29, 2012, this change in policy had resulted in the value of the Renminbi appreciating against the U.S. dollar by approximately 30.3%.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or other foreign currency. As we rely on dividends paid to us by our operating subsidiaries, any significant revaluation of the Renminbi may have a material adverse effect on the value of dividends payable in foreign currency terms. To the extent that we need to convert the proceeds from this offering and future financing into the Renminbi for our operations, appreciation of the Renminbi against the relevant foreign currencies would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our shares or for other business purposes, appreciation of the Hong Kong dollar against the Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

Government control over currency conversion may affect the value of your investment and limit our ability to utilize our cash effectively

Substantially all of our revenue is denominated in Renminbi. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

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

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options and restricted share units may subject such employees or us to fines and legal or administrative sanctions

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange (個人外匯管理辦法實施細則) issued on January 5, 2007 by SAFE and relevant notice issued by SAFE in February 2012, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to obtain the approval of SAFE and complete certain other procedures related to the share options or other share incentive scheme. However, no requirements or administrative rules have been issued by SAFE in connection with the registration process for employees of overseas non-listed companies that participate in employee stock holding plans or stock option plans. In addition, foreign exchange income from the sale of shares or dividends distributed by the overseas listed company must be remitted into a foreign currency account of such PRC citizen or exchanged into Renminbi. Our PRC citizen employees who may be granted share options or restricted share units in the future, or our future PRC option holders, will be subject to the Individual Foreign Exchange Rules. If we or our future PRC option holders fail to comply with these regulations, we or our future PRC option holders may be subject to fines and legal or administrative sanctions.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on foreign laws against us, our directors and our senior management

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, the substantial majority of our directors and senior management reside within China. As a result, it may not be possible for investors to effect service of process outside China upon the substantial majority of our directors and senior management. Moreover, China does not have treaties with the United States, the United Kingdom or many other countries providing for the reciprocal recognition and enforcement of the judgment of courts. As a result, recognition and enforcement in China of judgments of a court in any of these jurisdictions may be difficult.

Any future natural disasters, acts of God, outbreak of any communicable disease in China or any other epidemic may adversely affect our operational results

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God, which are beyond our control, may adversely affect the economy, infrastructure and livelihood of people in China. Some regions of China, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought or epidemics such as Severe Acute Respiratory Syndrome, or SARS, or H5N1 avian flu. For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. In April 2009, a human swine influenza also known as Influenza A (H1N1) broke out in Mexico and spread globally, resulting in the loss of lives and widespread fear. Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. If in the future any of our employees or our customers in our properties are suspected of having SARS, H5N1 avian flu or H1N1 human swine flu, or any other epidemic or any of our facilities are identified as a possible source of spreading such epidemic, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that had come into contact with those employees. We may also be required to disinfect the affected properties and thereby suffer a temporary interruption of our operations. A recurrence of SARS or an outbreak of any other epidemics in China, such as the H5N1 avian flu or the H1N1 human swine flu, or fears relating to or arising from such an epidemic may result in material disruptions to our operations and delays in meeting our customers' demand, which in turn would materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE NOTES

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

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

Creditors, including trade creditors of Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on the Non-Guarantor Subsidiaries' assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries, including their obligations under guarantees they have issued or will issue in connection with our business operations, and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of June 30, 2012, our PRC subsidiaries had unsubordinated indebtedness in the amount of RMB4,435.0 million (US\$698.1 million), capital commitments in the amount of RMB15,443.0 million (US\$2,430.8 million) and contingent liabilities arising from guarantees in the amount of RMB3,441.5 million (US\$541.7 million). The Notes and the Indentures permit us, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) securing the related obligations over claims of holders of the Notes.

Under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee, or JV Subsidiary Guarantee, following the sale or issuance to a third party of a 20% to 49.9% equity interest in such subsidiary by its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such Subsidiary Guarantor, or JV Subsidiary Guarantor, multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

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

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our loan balance as of December 31, 2009, 2010 and 2011 and June 30, 2012 were RMB6,320 million, RMB8,633 million, RMB11,637 million (US\$1,831.7 million) and RMB11,524 million (US\$1,814 million), respectively.

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

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

- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Under the Notes, our ability to incur additional debt is subject to the limitation on indebtedness and preferred stock covenant. Under such covenant, we may incur (i) certain Permitted Indebtedness or (ii) additional indebtedness if we can, among other things, satisfy the Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio is derived by dividing Consolidated EBITDA by Consolidated Fixed Charges. Because our definition of Consolidated EBITDA includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenant, could be substantially larger when compared to other similarly situated PRC high yield issuer whose covenant do not typically include unrealized gains in the calculation of their respective consolidated EBITDA. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify. If our onshore subsidiaries incur additional debt, the ratings assigned to the notes by any rating agency may be adversely affected which could adversely affect the market price of the Notes. See “—The Ratings assigned to the Notes and our corporate ratings may be lowered or withdrawn in the future.”

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, there is no assurance that we will be able to generate sufficient cash flow for these purposes, particularly as we transition from a “build-to-sell” to a “build-to-hold” business model. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

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

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

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments or agreements of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect

to such equity securities would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends. In addition, dividends paid by our PRC subsidiaries to their non-PRC parent companies are subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to an avoidance of double taxation arrangement between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such restrictions tax rate may be 5%. As a result of such restrictions, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

Furthermore, although we currently do not have any offshore shareholder loan to our PRC subsidiaries, we may resort to such offshore lending in the future, rather than equity contribution, to our PRC subsidiaries to finance their operations. In such events, the market interest rates that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholder loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on our behalf on the interest paid under any shareholder loan. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries (as foreign-invested enterprises in China) must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be.

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

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. The floating band was further widened to 1.0% on April 16, 2012. These changes in currency policy resulted in Renminbi appreciating against the U.S. dollar and the H.K. dollar by approximately 30.3% from July 21, 2005 to June 29, 2012. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were

implemented and resulted in devaluation of Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar-denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to such risks. Following the offering of the Notes, we may enter into foreign exchange or interest rate hedging arrangements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging arrangements may require us to pledge or transfer cash and other collateral to secure our obligations under the arrangements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Initial Purchasers and their respective affiliates may enter into such hedging arrangements permitted under the Indentures, and these arrangements may be secured by pledges of our cash and other assets as permitted under the Indentures. If we were unable to provide such collateral, it could constitute a default under such hedging arrangements.

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

We must offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See the section entitled “Description of the 2017 Notes” and “Description of the 2022 Notes.”

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

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

Interest payable by us to our foreign investors and gain on the sale of our Notes may become subject to withholding taxes under PRC tax laws

Under the PRC EIT Law issued by National People’s Congress and implementing regulations issued by the State Council, PRC income tax at the rate of 10% (or lower treaty rate, if any) is withheld from interest paid to investors that are “non-resident enterprises” and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant interest income is not effectively connected with the establishment or place of business, to the extent such interest is derived from sources within the PRC. Any gain realized on the transfer of the Notes by such investors is subject to a 10% (or lower treaty rate, if any) PRC income tax if such gain is regarded as income of a “non-resident enterprise” derived from

sources within the PRC. We currently do not intend to withhold PRC taxes from interest payments. However, there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If we are treated as a PRC “resident enterprise,” as described in “—Risks Relating to Our Business—We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income,” the interest we pay in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, may be treated as income derived from sources within the PRC and may be subject to PRC tax (including withholding tax in the case of interest). If we are required under the EIT Law to withhold PRC income tax from interest payments made to our foreign shareholders who are “non-resident enterprises,” we will be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition, if you are required to pay PRC income tax on the transfer of our Notes, the value of your investment in our Notes may be materially and adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise,” holders of our Notes might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

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

In the event we are treated as a PRC “resident enterprise” under the EIT Law, we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the 2017 Notes—Redemption for Taxation Reasons” and “Description of the 2022 Notes—Redemption for Taxation Reasons,” in the event we are required to pay additional amounts as a result of certain changes in specified tax law or certain other circumstances, including any change or interpretation that results in our being required to withhold tax on interest payments as a result of our being treated as a PRC “resident enterprise,” we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

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

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

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

We may be unable to obtain and remit foreign exchange

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

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

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

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

The Indentures include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;

- engage in any business other than permitted business;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

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

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

The Notes are a new issue of securities for which there is currently no trading market. Although we have received approval in-principle for the listing and quotation of the Notes on the Official List of the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing on the Official List of the SGX-ST, or that, even if listed, a liquid trading market will develop. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the U.S. Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the U.S. Securities Act or in transactions not subject to or exempt from registration under the U.S. Securities Act. See the section entitled "Transfer Restrictions." No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for the Notes. If an active trading market does not develop or is not continued, the market price and liquidity of the Notes could be adversely affected.

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

The Notes are expected to be assigned a rating of BB+ by Standard and Poor's Ratings Services and Ba1 by Moody's Investors Service. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. In addition, we have been assigned a long-term corporate credit rating of BB+ with a negative outlook by Standard and Poor's Rating Services and a corporate family rating of Ba1 with a stable outlook by Moody's Investors Service. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

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

Our shares are listed on the Hong Kong Stock Exchange and we are required to comply with its Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries, on the one hand, and a "connected person" of such listed company, on the other hand, is a "connected transaction" that, if the value of such transaction exceeds the applicable de minimis thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of "connected person" to a listed company includes, among others, any 10% or more shareholder of (i) such listed company

or (ii) any subsidiary of such listed company. The concept of “connected person” also captures “associates,” which include, among others, (a) any subsidiary of such “connected person,” (b) any holding company of such “connected person” and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

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

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

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

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

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

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

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

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

Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries and their direct PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of PRC or their future PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of our PRC subsidiaries. Moreover, the charge over the shares of the offshore subsidiaries of the Company (the “Collateral”) will not include the capital stock of our existing or future Non-Guarantor Subsidiaries, including our PRC subsidiaries. See the section entitled “Description of the 2017 Notes—The Subsidiary Guarantees” and “Description of the 2022 Notes—The Subsidiary Guarantees” for a list of the Non-Guarantor Subsidiaries.

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

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

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

Any post acceleration recovered proceeds shall be shared with the other creditors

In order for the applicable Trustee and the holders of the applicable Notes to have the benefit of the Collateral and the Subsidiary Guarantees that are regulated, or evidenced, by the Intercreditor Deed, substantially simultaneous with the issuance of each series of the Notes, the applicable Trustee will accede to the Intercreditor Deed. Following the occurrence of an enforcement event, each secured creditor under the Intercreditor Deed, including the holders of the Notes, the holders of the Convertible Bonds, the finance parties under the 2011 Credit Facility and the finance parties under the 2012 Credit Facility, is required to pay the Common Security Agent any amount it recovers other than from the Common Security Agent under the Intercreditor Deed to ensure that each secured creditor will receive its *pro rata* portion of any such recovered amount. Any amount recovered by a Trustee other than through the Common Security Agent may therefore not be shared exclusively by the holders of the Notes.

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

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

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

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

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

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be) will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor or JV Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids a Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be), subordinates such guarantee to other indebtedness of the Subsidiary Guarantor or JV Subsidiary Guarantor, or holds the Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be) unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor or JV Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor or JV Subsidiary Guarantor (as the case may be), and would solely be creditors of us and any Subsidiary Guarantors or JV Subsidiary Guarantors whose guarantees have not been voided or held

unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

The pledge of certain Collateral may in some circumstances be voidable

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, the Cayman Islands, the BVI, Macau and Barbados at any time within six months of the perfection of the pledge or, under some circumstances, within a longer period. Pledges of future assets may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the analysis set forth under “—The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees” above.

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

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

The Collateral will consist only of our offshore assets. The security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in properties and assets that will not be pledged as additional Collateral.

The ability of the Common Security Agent, on behalf of the secured creditors under the Intercreditor Deed, to foreclose on the Collateral upon the occurrence of an enforcement event or otherwise will be subject in certain instances to perfection and priority status. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Common Security Agent will be able to enforce the security interest.

The value of the Collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the Collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, we cannot assure you that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due and payable on the Notes. By its nature, the Collateral is likely to be illiquid and is unlikely to have a readily ascertainable market value. Likewise, we cannot assure you that the Collateral will be saleable or, if saleable, that there will not be substantial delays in its liquidation.

The Collateral will be shared on a pari passu basis by the secured creditors under the Intercreditor Deed, including the holders of the Notes, the holders of the Convertible Bonds, the finance parties under the 2011 Credit Facility and the finance parties under the 2012 Credit Facility, and the holders of other indebtedness ranking pari passu with the Notes that we may issue or incur in the future. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of such secured indebtedness. The value of the Collateral securing the Notes and the Subsidiary Guarantees is unlikely to be sufficient to satisfy the obligations of the Company under the Notes and the Subsidiary Guarantees, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes or other pari passu indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indentures.

The pledge of certain Collateral may be released under certain circumstances

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

The Intercreditor Deed may impact the ability of the Company and the Subsidiary Guarantors to pay amounts due under the Notes and the Subsidiary Guarantees and the Intercreditor Deed may limit the rights of holders of the Notes to the Collateral

The Common Security Agent (as defined under “Description of the 2017 Notes—Definitions” and “Description of the 2022 Notes—Definitions”) is required to take action to enforce the Collateral in accordance with the instructions given by any secured creditors under the Intercreditor Deed (including the holders of the Notes, the holders of the Convertible Bonds, the finance parties under the 2011 Credit Facility and the finance parties under the 2012 Credit Facility) in accordance with the Intercreditor Deed. Any enforcement action taken by the Common Security Agent will adversely affect the Company’s entitlement to receive distributions from the Collateral, which will, in turn, have an adverse impact on the Company’s ability to fulfill its payment obligations under the Notes. Further, the Subsidiary Guarantors’ ability to pay under the Subsidiary Guarantees will be adversely affected. The ability of holders of the Notes to enforce the Collateral is restricted under the Intercreditor Deed, as only the Common Security Agent is permitted to take enforcement actions. If an event of default occurs under a series of the Notes, the holders of such series of the Notes holding 25% of the outstanding amount of such series of the Notes may decide whether to take any enforcement action and may thereafter, through the Trustee, in accordance with the Intercreditor Deed, instruct the Common Security Agent to take enforcement action against the Collateral. Other secured creditors can do likewise. By virtue of the instructions given to the Common Security Agent described above, actions may be taken in respect of the Collateral that may be adverse to holders of the Notes.

The Common Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Intercreditor Deed. Under certain circumstances, the Common Security Agent may have obligations under the Security Documents or the Intercreditor Deed that are in conflict with the holders of the Notes. The Common Security Agent will not be under any obligation to exercise any rights or powers conferred under the Intercreditor Deed or any of the Security Documents for the benefit of the holders of the Notes unless such holders have offered to the Common Security Agent indemnity and/or security satisfactory to the Common Security Agent against any loss, liability or expense.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US\$985.9 million. We intend to use the net proceeds for general corporate purposes.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest the net proceeds in Temporary Cash Investments (as defined under “Description of the 2017 Notes—Definitions” and “Description of the 2022 Notes—Definitions”).

EXCHANGE RATE INFORMATION

CHINA

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

On May 18, 2007, PBOC widened the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. The floating band was further widened to 1.0% on April 16, 2012. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day.

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

Period	Noon buying rate			
	Period end	Average ⁽¹⁾	High	Low
		(RMB per US\$1.00)		
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.6796	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012				
April	6.2790	6.3043	6.3150	6.2790
May	6.3684	6.3242	6.3684	6.3052
June	6.3530	6.3632	6.3703	6.3530
July	6.3610	6.3717	6.3879	6.3487
August	6.3484	6.3593	6.3738	6.3484
September	6.2848	6.3200	6.3489	6.2848
October (through October 19, 2012)	6.2533	6.2732	6.2877	6.2501

Note:

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

HONG KONG

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

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

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

Period	Noon buying rate			
	Period end	Average ⁽¹⁾	High	Low
		(HK\$ per US\$1.00)		
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7499	7.7814	7.8159	7.7497
2009	7.7536	7.7513	7.7618	7.7495
2010	7.7810	7.7687	7.8040	7.7501
2011	7.7663	7.7841	7.8087	7.7634
2012				
April	7.7587	7.7621	7.7660	7.7587
May	7.7616	7.7640	7.7699	7.7583
June	7.7572	7.7590	7.7610	7.7572
July	7.7538	7.7561	7.7586	7.7538
August	7.7560	7.7562	7.7574	7.7543
September	7.7540	7.7540	7.7569	7.7510
October (through October 19, 2012)	7.7501	7.7523	7.7549	7.7501

Note:

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

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and cash equivalents, short-term borrowings, long-term borrowings and total capitalization as of June 30, 2012 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes in this offering with estimated net proceeds of approximately US\$985.9 million, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering. The following table should be read in conjunction with the selected consolidated financial information and the audited consolidated financial statements and related notes included in this offering memorandum.

	As of June 30, 2012			
	Actual		As adjusted	
	RMB	US\$ ⁽¹⁾	RMB	US\$ ⁽¹⁾
	(in thousands)			
Cash and cash equivalents ⁽²⁾	5,873,318	924,495	12,136,741	1,910,395
Short-term borrowings				
Borrowings – due within one year	3,206,352	504,699	3,206,352	504,699
Long-term borrowings				
Borrowings – due after one year ⁽³⁾	8,317,951	1,309,295	8,317,951	1,309,295
Convertible Bonds	2,049,643	322,626	2,049,643	322,626
Notes to be issued ⁽⁴⁾	–	–	6,263,423 ⁽¹⁾	985,900
Total long-term borrowings	10,367,594	1,631,921	16,631,017	2,617,821
Total equity	22,764,948	3,583,338	22,764,948	3,583,338
Total capitalization ⁽⁵⁾	33,132,542	5,215,259	39,395,965	6,201,159

Notes:

- (1) Based on a RMB-to-US\$ exchange rate of 6.3530.
- (2) Cash and cash equivalents exclude restricted bank deposits of RMB3,325.5 million.
- (3) From June 30, 2012 to September 30, 2012, there was a net increase in borrowings – due after one year of approximately RMB4,000 million due to further drawdown of existing credit facilities.
- (4) The Notes to be issued will be recognized initially at fair value net of transaction costs incurred. The Notes will be subsequently stated at amortized cost using effective interest rate method. For the purposes of this table, estimated net proceeds of US\$985.9 million after deducting the underwriting discounts and commissions and other estimated expenses of approximately US\$14.1 million have been used.
- (5) Total capitalization includes total long-term borrowings plus total equity.

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization and indebtedness since June 30, 2012.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected consolidated statement of comprehensive income data for the years ended December 31, 2009, 2010 and 2011 and the selected consolidated balance sheet data as of December 31, 2009, 2010 and 2011 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by KPMG, independent certified public accountants, and included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The selected consolidated statement of comprehensive income data for the six months ended June 30, 2011 and 2012 and the selected consolidated balance sheet data as of June 30, 2012 set forth below (except for EBITDA data) have been derived from our unaudited but reviewed condensed consolidated interim financial information included elsewhere in this offering memorandum. The selected financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Selected Consolidated Statement of Comprehensive Income and Other Financial Data

	For the year ended December 31,				For the six months ended June 30,		
	2009	2010	2011	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
	(unaudited) (unaudited) (unaudited) (unaudited) (in thousands)						
Turnover	7,413,451	18,215,091	5,684,822	894,825	2,645,634	1,222,378	192,410
Cost of properties sold	<u>(3,556,393)</u>	<u>(8,958,349)</u>	<u>(2,954,246)</u>	<u>(465,016)</u>	<u>(1,128,708)</u>	<u>(640,869)</u>	<u>(100,877)</u>
Gross profit	3,857,058	9,256,742	2,730,576	429,809	1,516,926	581,509	91,533
Valuation gains on investment properties	2,144,461	165,000	4,027,445	633,944	1,997,026	423,351	66,638
Other revenue and income	115,065	207,438	276,142	43,466	103,542	90,473	14,241
Selling expenses	(262,084)	(547,437)	(237,661)	(37,409)	(107,545)	(54,056)	(8,509)
Administrative expenses	(184,801)	(204,776)	(210,511)	(33,136)	(79,119)	(90,463)	(14,239)
Other operating expenses	<u>(121,857)</u>	<u>(153,132)</u>	<u>(134,097)</u>	<u>(21,108)</u>	<u>(54,013)</u>	<u>(63,846)</u>	<u>(10,050)</u>
Profit from operations	5,547,842	8,723,835	6,451,894	1,015,566	3,376,817	886,968	139,614
Financial income	233,693	224,394	559,453	88,061	234,846	272,123	42,834
Financial expenses	(146,620)	(292,351)	(350,752)	(55,210)	(132,159)	(195,950)	(30,844)
Government grants	23,795	44,190	201,285	31,683	–	–	–
Share of profit of a jointly controlled entity	–	–	–	–	–	77,105	12,137
Profit before taxation	5,658,710	8,700,068	6,861,880	1,080,100	3,479,504	1,040,246	163,741
Income tax.	<u>(2,264,020)</u>	<u>(4,928,485)</u>	<u>(2,375,458)</u>	<u>(373,911)</u>	<u>(1,283,642)</u>	<u>(397,590)</u>	<u>(62,583)</u>
Profit for the year/period	<u>3,394,690</u>	<u>3,771,583</u>	<u>4,486,422</u>	<u>706,189</u>	<u>2,195,862</u>	<u>642,656</u>	<u>101,158</u>

	For the year ended December 31,				For the six months ended June 30,		
	2009	2010	2011	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
	(unaudited) (unaudited) (unaudited) (unaudited) (unaudited) (unaudited) (unaudited)						
	(in thousands)						
Attributable to:							
Equity shareholders of the Company	3,300,178	3,636,156	3,892,308	612,672	1,750,143	612,575	96,423
Non-controlling interests . . .	94,512	135,427	594,114	93,517	445,719	30,081	4,735
Profit for the year/period . . .	<u>3,394,690</u>	<u>3,771,583</u>	<u>4,486,422</u>	<u>706,189</u>	<u>2,195,862</u>	<u>642,656</u>	<u>101,158</u>
Earnings per share (RMB)							
Basic	0.636	0.701	0.751		0.337	0.118	
Diluted	0.625	0.673	0.716		0.324	0.118	
Profit for the year/period . . .	<u>3,394,690</u>	<u>3,771,583</u>	<u>4,486,422</u>	<u>706,189</u>	<u>2,195,862</u>	<u>642,656</u>	<u>101,158</u>
Other comprehensive income for the year/ period (after tax and reclassification adjustments)							
Exchange differences on translation of financial statements of foreign operations	(58,902)	41,556	(19,655)	(3,093)	107,540	(26,686)	(4,201)
Surplus on revaluation of office premises, net of deferred tax	—	—	70,481	11,094	—	—	—
Total comprehensive income for the year/ period	<u>3,335,788</u>	<u>3,813,139</u>	<u>4,537,248</u>	<u>714,190</u>	<u>2,303,402</u>	<u>615,970</u>	<u>96,957</u>
Attributable to:							
Equity shareholders of the Company	3,241,276	3,677,712	3,943,134	620,673	1,857,683	585,889	92,222
Non-controlling interests . . .	94,512	135,427	594,114	93,517	445,719	30,081	4,735
Total comprehensive income for the year/ period	<u>3,335,788</u>	<u>3,813,139</u>	<u>4,537,248</u>	<u>714,190</u>	<u>2,303,402</u>	<u>615,970</u>	<u>96,957</u>
Other financial data (unaudited):							
EBITDA ¹	3,427,391	8,577,137	2,443,772	384,664	1,387,598	474,257	74,651
EBITDA margin ²	46.2%	47.1%	43.0%	43.0%	52.4%	38.8%	38.8%

- 1 EBITDA consists of profit for the year/period before income tax, financial income, financial expenses, share of profit of a jointly controlled entity, government grants, depreciation and valuation gains on investment properties. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as turnover and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indentures governing the Notes. Interest expense excludes amounts capitalized. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."
- 2 EBITDA margin is calculated by dividing EBITDA by turnover.

Selected Consolidated Balance Sheet Data

	As of December 31,				As of June 30,	
	2009	2010	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
				(unaudited)	(unaudited)	(unaudited)
	(in thousands)					
Non-current assets						
Investment properties	2,920,000	3,085,000	13,334,500	2,098,930	13,918,000	2,190,776
Property and equipment	672,211	554,161	688,140	108,317	685,228	107,859
Bank deposits	1,277,691	3,840,915	1,222,115	192,368	1,515,784	238,593
Interest in a jointly controlled entity	—	1,211,900	—	—	4,111,387	647,157
Deferred tax assets	557,761	1,019,420	901,918	141,967	948,692	149,330
	5,427,663	9,711,396	16,146,673	2,541,582	21,179,091	3,333,715
Current assets						
Properties under development and completed properties held for sale	21,520,795	18,697,483	23,428,529	3,687,790	27,966,452	4,402,086
Deposits and prepayments	895,042 ⁽¹⁾	1,006,408	5,066,025	797,422	3,233,950	509,043
Trade and other receivables	670,942 ⁽¹⁾	790,224	549,471	86,490	1,672,604	263,278
Bank deposits	—	—	2,582,919	406,567	1,809,699	284,857
Cash and cash equivalents	9,241,879	17,724,921	11,906,157	1,874,100	5,873,318	924,495
	32,328,658	38,219,036	43,533,101	6,852,369	40,556,023	6,383,759
Current liabilities						
Bank loans	550,000	2,580,744	2,214,593	348,590	3,206,352	504,699
Sales deposits	5,314,274 ⁽²⁾	6,720,091	13,198,710	2,077,555	15,931,019	2,507,637
Trade and other payables	2,393,902 ⁽²⁾	2,586,354	1,949,503	306,863	3,166,040	498,354
Taxation	3,700,397	6,966,710	5,681,681	894,331	4,227,112	665,372
	11,958,573	18,853,899	23,044,487	3,627,339	26,530,523	4,176,062

	As of December 31,				As of June 30,	
	2009	2010	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
				(unaudited)	(unaudited)	(unaudited)
	(in thousands)					
Net current assets	20,370,085	19,365,137	20,488,614	3,225,030	14,025,500	2,207,697
Total assets less current liabilities	25,797,748	29,076,533	36,635,287	5,766,612	35,204,591	5,541,412
Non-current liabilities						
Bank loans	5,769,660	6,052,171	9,422,836	1,483,210	8,317,951	1,309,295
Convertible bonds	1,958,783	1,984,828	1,986,897	312,749	2,049,643	322,626
Contract retention payables	22,241	273,732	276,677	43,551	223,086	35,115
Deferred tax liabilities	604,537	786,434	1,731,255	272,510	1,848,963	291,038
	<u>8,355,221</u>	<u>9,097,165</u>	<u>13,417,665</u>	<u>2,112,020</u>	<u>12,439,643</u>	<u>1,958,074</u>
Net assets	<u>17,442,527</u>	<u>19,979,368</u>	<u>23,217,622</u>	<u>3,654,592</u>	<u>22,764,948</u>	<u>3,583,338</u>
Capital and Reserves						
Share capital	107,485	107,485	107,502	16,921	107,502	16,921
Reserves	17,116,130	19,135,247	21,615,261	3,402,371	21,653,043	3,408,318
Equity attributable to equity shareholders of the Company	17,223,615	19,242,732	21,722,763	3,419,292	21,760,545	3,425,239
Non-controlling interests	<u>218,912</u>	<u>736,636</u>	<u>1,494,859</u>	<u>235,300</u>	<u>1,004,403</u>	<u>158,099</u>
Total Equity	<u>17,442,527</u>	<u>19,979,368</u>	<u>23,217,622</u>	<u>3,654,592</u>	<u>22,764,948</u>	<u>3,583,338</u>

Notes:

- (1) The balance of “Deposits and prepayments” was included under “Trade and other receivables” on the published financial statements for the year ended and as of December 31, 2009.
- (2) The balance of “Sales deposits” was included under “Trade and other payables” on the published financial statements for the year ended and as of December 31, 2009.

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

OVERVIEW

We are a leading PRC commercial property developer focused on central Beijing and Shanghai. We have primarily focused on the development and sale of prime office properties and complementary retail and high-end residential and hotel properties. We believe we were one of the early movers and are currently one of the largest participants in the PRC prime office property sector. With over 16 years of history, we have established a broad range of capabilities in developing, selling, leasing and managing prime office and retail properties. We believe our "SOHO China" brand is one of the most recognizable brands in China. We work with leading international architects to bring innovative designs to China, and aim to create lasting architectural landmarks with our developments. We were named one of the "Most Admired Companies" in China by *Fortune* magazine (China edition) six times from 2006 to 2012. Mr. Pan Shiyi and Ms. Zhang Xin, who are our co-founders and currently our chairman and chief executive officer, respectively, are among the most well-known leaders in the PRC real estate industry.

Since our founding in 1995, we have focused developments in central Beijing. We believe we are one of the largest prime office property managers in Beijing. Since 2009, we have successfully expanded into and established our presence in Shanghai, through the acquisition or development of a total of 11 projects. We believe we are the largest private land owner on the Bund in Shanghai. Except one completed and substantially sold-out resort project in Bo'ao, Hainan Province, all of our developments to date have been in Beijing or Shanghai. As of September 30, 2012, we had completed development of 14 projects and had four projects under development in Beijing, with a total completed GFA of 2.5 million sq.m., and we had completed development of three projects and had eight projects under development in Shanghai, with a total completed GFA of 281,000 sq.m. We intend to continue to focus on central Beijing and Shanghai in the foreseeable future, because we believe Beijing and Shanghai are and will remain leaders in the PRC prime office property sector with substantially higher rents and lower vacancies than other cities in China, according to publicly available market research reports. See "Industry Overview." Furthermore, we attach great importance to site selection in central Beijing and Shanghai, with an emphasis on prime locations near transportation hubs and iconic sites, as we believe location, in addition to architectural design and quality, is a key factor contributing to the strong demand for our properties and our ability to charge premium rents.

We believe that the supply of prime office properties in central Beijing and Shanghai is finite and the demand for such properties will remain strong in line with China's economic growth, and therefore expect that prime office rents in central Beijing and Shanghai will increase in the future. We believe that the commercial property sector in the PRC, as compared to the residential property sector, is less affected by government policies curbing price increases or otherwise imposing restrictions. In order to retain more of such expected growing value in properties we develop, we are gradually changing our "build-to-sell" business model to a "build-to-hold" business model and increasing our proportion of investment properties. We believe the "build-to-hold" business model will enable us to enjoy stable recurring income appreciating in line with economic growth as well as capital asset appreciation driven by our investment property portfolio. As of September 30, 2012, we held two completed investment property projects with a total GFA attributable to us of approximately 90,000 sq.m. As of the same date, we had 11 properties under development that we intend to hold in whole or in part as investment properties, with a total planned GFA attributable to us of approximately 1.6 million sq.m.

In addition, we believe our strong track record in leasing and property management has prepared us well as we become a larger landlord in the PRC prime office property sector. Our experienced leasing team is responsible for procuring tenants for all the investment properties we hold and substantially all the properties we developed and sold to our customers when the properties were sold. Similarly, we manage all of the investment properties we lease to our tenants, as well as substantially all of the properties we developed and sold. As of September 30, 2012, we had an aggregate GFA of approximately 2.3 million sq.m. under our management.

As of September 30, 2012, we had 15 current projects, including five in Beijing and 10 in Shanghai. As of the same date, these projects had an aggregate total planned GFA of approximately 2.9 million sq.m., including 0.3 million sq.m. completed and 2.6 million sq.m. under development.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our turnover was RMB7,413.5 million, RMB18,215.1 million, RMB5,684.8 million (US\$894.8 million) and RMB1,222.4 million (US\$192.4 million), respectively. For the same periods, our net profit for the year/period was RMB3,394.7 million, RMB3,771.6 million, RMB4,486.4 million (US\$706.2 million) and RMB642.7 million (US\$101.2 million), respectively. As of December 31, 2009, 2010 and 2011 and June 30, 2012, we had cash and cash equivalent of RMB9,241.9 million, RMB17,724.9 million, RMB11,906.2 million (US\$1,874.1 million) and RMB5,873.3 million (US\$924.5 million), respectively.

KEY FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our business, results of operations and financial condition have been, and we expect will continue to be, affected by a number of factors and risks, many of which are beyond our control. Please refer to the section entitled “Risk Factors” in this offering memorandum. The key factors and material risks include the following:

Our Business Model

Our results of operations are affected by the way we operate our business. We have, in the past, utilized a “build-to-sell” business model, as a result of which our results of operations have fluctuated significantly from period to period. The number of property developments that we can undertake during any particular period is limited due to substantial capital requirements for land acquisition and construction as well as limited land supply. In addition, significant time is required for property developments, and it may take months or years before a development begins to generate revenue for us. Moreover, with respect to our properties for sale, while pre-sale generates positive cash flow for us in the period in which it is made, we must place a portion of such proceeds in restricted bank accounts and may only use such cash for specified purposes, and no sales revenue is recognized in respect of such property until the relevant property is delivered to the purchaser. In addition, as market demand may fluctuate, sales revenue in a particular period can also depend on our ability to gauge the expected demand in the market at the expected launch time for a particular project. As a result, our results of operations have fluctuated in the past and, to the extent we continue to adopt the “build-to-sell” business model, are likely to continue to fluctuate in the future.

Our Development/Acquisition Schedule and Project Mix

We focus on developing or acquiring high-quality commercial properties in prime locations in central Beijing and Shanghai for sale or, increasingly, for leasing. We believe such prime locations are finite, and we follow strict guidelines on site selection. Therefore, we have a limited number of current projects at one time, and only a few developments are completed and available for sale or lease in any given year/period. Such developments, due to differences in location, project nature (e.g., new construction versus acquired completed building) and property type (e.g., office properties versus retail properties), carry different price and cost characteristics. Consequently, the average selling price and average cost of our developments as well as our gross profit margin for a given year/period may fluctuate from previous years/periods.

Going forward, we plan to gradually change to a “build-to-hold” business model and aim to increase our proportion of properties held for investment, so as to achieve greater revenue stability through recurring rental income and retain the long term capital appreciation of the properties we develop. We plan to hold those properties at prime locations that we believe can bring us potential long term benefit and thereby increase the stability of our revenue streams and reduce our overall exposure to volatility within the PRC property sector, in particular, the commercial property sector. We currently derive a substantial portion of our revenue and profit from sales of our properties. As we gradually switch to a “build-to-hold” business model and rely more on rental income from our properties, our revenue, profit margin and cash flow may decrease in the short term. We believe, however, that we will enjoy more stable revenue in the long term and thus be in a better liquidity

position in the long term. We may further adjust our business model based on market conditions, which may affect our revenue, financial position and cash flows.

Economic Conditions and Regulatory Environment in the PRC

Our results of operations are subject to political, economic, fiscal, legal and social developments in the PRC in general and in cities and regions in which we operate, principally Beijing and Shanghai, as well as economic, fiscal, legal and social developments specifically affecting the real estate sector in the PRC and in cities and regions in which we operate, including:

- continued growth in the economy, population and rate of urbanization in the PRC and in cities and regions in which we operate as such factors drive the demand for the purchase and rental of real estate properties;
- the regulatory and fiscal environment of the PRC, specifically, the regulatory and fiscal environment affecting the property development industry, including tax policies, land grant and land use rights policies, pre-sale policies, policies on bank financing and interest rates and the availability of mortgage financing and other macro-economic policies; and
- the performance of the PRC's property market, in particular, the supply and demand for commercial real estate properties and pricing trends in the medium- to high-end property sector in the cities and regions in which we operate.

The slowdown of the global economy from 2008 to early 2009, including that of China, resulted in a decline in real estate market sentiment, which adversely affected property demand and average selling prices and rental prices in many areas of China. In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these European nations to continue to service their sovereign debt obligations. On August 6, 2011, S&P downgraded the rating for long-term United States debt to "AA+" from "AAA" for the first time in 70 years. The downgrade of United States debt by S&P, coupled with the economic turmoil in Europe and other parts of the world, may continue to adversely affect the global economy and financial markets. It is difficult to determine the impact of any global economic slowdown and financial crisis on the property industry in China in general and on the prime commercial real estate market segment on which we focus. If the global economic slowdown and financial market crisis continue or become more severe than currently estimated, our business prospects, revenues, cash flows and financial condition could be materially and adversely affected. See "Risk Factors—Risks Relating to Our Business—We may be adversely affected by fluctuations in the global economy and financial markets."

Our business and results of operations have also been, and will continue to be, affected by the regulatory environment in China, PRC governmental policies and measures taken by the PRC government on property development and related industries. In recent years, the PRC government has implemented a series of measures with a view to controlling the growth of the economy, including the property markets. While the property industry is regarded as a pillar industry by the PRC government, the PRC government has taken various restrictive measures to discourage speculation in the property market and to increase the supply of affordable residential properties. From time to time, the PRC government adjusts or introduces macroeconomic control policies to encourage or restrict development in the private property sector through regulating, among others, land grants, pre-sales of properties, bank financing and taxation. Measures taken by the PRC government to control money supply, credit availability and fixed assets also have a direct impact on our business and results of operations. The PRC government may introduce initiatives which may affect our access to capital and the means in which we may finance our property development. See "Regulation."

Changes in the economic conditions and the regulatory environment in the PRC in general or in cities and regions in which we operate, principally Beijing and Shanghai, may affect the leasing or selling prices of our properties as well as the time it will take us to lease, pre-sell or sell the properties we have developed. Lower leasing or selling prices, without a corresponding decrease in costs, will adversely affect our gross profit and reduce cash flow generated from operations, which may increase our reliance on external financing and negatively impact our ability to finance the continuing growth of our business. A prolonged leasing or selling period will increase associated costs as well as reduce the cash flow generated from operations for a particular period. On the other hand, higher leasing or selling prices and a shorter leasing or selling period may increase our gross profit, reduce our costs and increase our cash flow for a particular period, which will enable us to better fund the growth of our business.

Costs of Labor, Construction Materials and Building Equipment

Our results of operations are affected by the costs of labor, construction materials, such as steel and cement, and building equipment. As a result of the economic growth and the boom in the property development industry in the PRC, wages for construction workers and the prices of construction materials and building equipment have increased in recent years. Further, the PRC Labor Contract Law (中華人民共和國勞動合同法) that came into effect on January 1, 2008, enhanced protections for employees and increased employers' liability in many circumstances, which may further increase our labor cost. To the extent that we are not able to pass such increased costs on to our customers, our gross margin and our results of operations would be adversely affected.

To reduce our exposure to price volatility of construction materials, we typically enter into contracts with third-party construction contractors pursuant to which the construction contractors are responsible for procuring most of the construction materials for our projects and paying wages for their construction workers and bear the risk of fluctuations in wages and construction material prices. Such construction contracts typically fix or cap the unit price of the construction materials and the total price payable depends on our quantity requirement. Similarly, under the terms of most of our construction contracts, wages for construction workers are paid by the construction contractors and increasing costs of labor are borne by the contractors during the term of such contracts. However, we are exposed to price volatility of construction materials and labor to the extent that we periodically enter into new or renew our construction contracts at different terms during the life of a project, which may span over several years, or if we hire construction workers directly or procure construction materials directly from suppliers, any of which may result in increased cost of sales and decreased profit margin. Furthermore, to the extent we pre-sell properties prior to their completion, we will not be able to pass on any increased costs to our customers if construction costs increase subsequent to pre-sale. In addition, as we typically procure building equipment and materials, such as elevators, interior decoration materials and air conditioning systems, directly from suppliers, we are directly exposed to the price volatility of such equipment and materials.

Access to and Cost of Financing

Property development requires significant capital outlay for land acquisition and months or even years of development before positive cash flow can be generated by the projects developed. Sufficient sources of financing are therefore critical to our business. We finance our projects primarily through internal funds, borrowings, proceeds from the pre-sale and sale of our projects and other funds raised from the capital markets from time to time.

Pre-sale proceeds are the sales proceeds we receive when we sell properties prior to their completion. We begin pre-sales after obtaining a pre-sale permit from the relevant government authorities. Historically, approximately 50% of our customers pay their purchase price without obtaining mortgage financing, although this rate has decreased for projects currently being pre-sold. In these cases, we generally require 10% of the purchase price to be paid upon execution of the pre-sale contract, with the balance to be paid within eight months thereafter. For customers who finance their purchases with mortgage financing, PRC regulations generally

require them to pay a minimum down-payment of 50% of the unit purchase price, which we typically require within four to five months of the execution of the pre-sale contract. We will receive the remaining purchase price from the mortgage bank: (i) for retail and office properties, when the development is completed; (ii) for residential properties under development, when the relevant property is topped out; or (iii) for completed residential properties, generally two months after the down-payment has been paid in full.

In addition to pre-sale and sales proceeds, we have from time to time utilized bank loans and proceeds raised from the capital markets to finance our projects as another source of financing. See “—Indebtedness and Contingent Liability—Bank Borrowings” and “Description of Material Indebtedness and Other Obligations.”

In the future, we expect to rely on a combination of internally generated cash flow, bank loans and proceeds raised from the capital markets to fund new projects. Our access to financing may be affected by various factors, including the factors discussed under “Risk Factors.” Any increase in our financing costs would negatively affect our profitability and results of operations and the availability of financing will affect our ability to engage in our project development activities, which will negatively affect our results of operations.

Ability to Acquire Land in Desirable Locations at Reasonable Cost

Our continued growth will depend in large part on our ability to secure quality land in locations suitable for our projects and at prices that are commercially acceptable to us. We have focused on the development, sale and, increasingly, leasing of commercial properties in prime locations in Beijing and Shanghai, which we believe has been a key component of our historically profitable business model. We have been able to acquire land in these locations from various sources including the government and private parties. Land at prime locations in Beijing and Shanghai is limited and subject to intense competition, and our continued ability to acquire such land is critical to our operations and future prospects.

In addition, land acquisition costs, consisting primarily of land premium and relocation costs, are one of the primary components of our cost of properties sold. In recent years, we have seen a rising trend in land acquisition costs. The PRC government controls all new land supply in the PRC and regulates land sales in the secondary market. As a result, PRC government policies towards land supply affect our ability and costs of acquiring land use rights. Most of the land used in our projects during 2009, 2010 and 2011 and the six months ended June 30, 2012 was acquired after the promulgation in 2002 of the PRC Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-for-Sale by the PRC Ministry of Land and Resources, or the New Land Acquisition Rules. The New Land Acquisition Rules require that land use rights for the purposes of commercial use, tourism, entertainment and commodity residential property development in the PRC may only be granted by the government through competitive processes, including public or private tender, auction or listing-for-sale (each a “Bidding Process”). As a result of these new regulations, when we acquire land through a Bidding Process, our land acquisition costs comprise primarily the purchase price, payable in one lump-sum payment or in installments to the government or other transferors as determined by the Bidding Process. Pursuant to the New Land Acquisition Rules, the relevant government authority is responsible for establishing a floor price for the Bidding Process on the basis of land value appraisals and government industrial policies. When we acquire land use rights from non-government grantees in secondary markets transactions, the purchase price is determined by direct negotiation with such grantees. As a result of these regulations and increased competition, our land acquisition costs have increased and are expected to continue to increase.

LAT

We are subject to LAT with respect to the appreciated value of land. LAT applies to both domestic and foreign developers and real estate investors in China, irrespective of whether they are corporate entities or natural persons. We incurred LAT expenses of RMB1,081.9 million, RMB3,025.3 million, RMB822.2 million (US\$129.4 million) and RMB195.6 million (US\$30.8 million) in 2009, 2010 and 2011 and the six months ended

June 30, 2012, respectively. We believe we have accrued all LAT payable on our property sales and transfers in accordance with the progressive rates specified in relevant PRC tax laws, less amounts previously paid under the levy method applied by relevant PRC local tax authorities. However, the provision for LAT requires our management to use a significant amount of judgment and estimates with respect to, among other things, the anticipated proceeds to be derived from the sale of the entire phase of the project or the entire project, the amount of land appreciation and the various deductible items. The relevant PRC local tax authorities may not agree with our estimates or the basis on which we calculate our LAT liabilities. If the LAT provisions we have made are substantially lower than the actual LAT amounts assessed by the relevant PRC local tax authorities in the future, our results of operations and cash flows will be materially and adversely affected.

Change in Fair Value of Our Investment Properties

Under HKFRS, we are required to reassess the fair value of our investment properties as of the date of the consolidated balance sheet, and gains or losses arising from changes in the fair value of our investment properties are included in our consolidated statement of comprehensive income in the period in which they arise. As of December 31, 2009, 2010 and 2011 and June 30, 2012, the fair value of our investment properties, which include investment properties that are under development, was RMB2,920.0 million, RMB3,085.0 million, RMB13,334.5 million (US\$2,098.9 million) and RMB13,918.0 million (US\$2,190.8 million), respectively. In 2009, 2010 and 2011 and the six months ended June 30, 2012, we experienced gains on fair-value changes of investment properties of RMB2,144.5 million, RMB165.0 million, RMB4,027.4 million (US\$633.9 million) and RMB423.4 million (US\$66.6 million), respectively. The fair value of each of our investment properties is likely to continue to fluctuate from time to time in the future. In addition, we may from time to time decide to hold properties originally intended for sale as investment properties, which reclassification will introduce a one-time fair-value gain. Our results of operations may continue to experience volatility as a result of fair-value gains or losses. Any fair-value losses of our investment properties would adversely affect our profitability. Furthermore, fair-value gains or losses do not give rise to any change to our cash position unless the relevant investment property is sold. Therefore, we may experience constraints on our liquidity even though our profitability increases.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies which involve subjective assumptions and estimates as well as complex judgements relating to certain accounting items. We set forth below those accounting policies that we believe involve the most significant estimates and judgements used in the preparation of our financial statements. In addition, we discuss our revenue recognition policy below because of its significance, even though it does not involve significant estimates or judgements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operation, are set forth in detail in Note 1 to our audited consolidated financial statements as of and for the year ended December 31, 2011 included in this offering memorandum.

Revenue Recognition

Sale of Properties

We recognize turnover from the sale of properties in profit or loss when the significant risks and rewards of ownership have been transferred to the buyers. We consider that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers. We include deposits and installments received on properties sold prior to the date of revenue recognition in the balance sheet as sales deposits. Turnover from sales of properties excludes business tax and is after deduction of any trade discounts. Although we recognize turnover on delivery of properties, title to the property is normally not transferred for

up to two years after delivery. For the small proportion of customers who have not paid in full by delivery, we recognize the full turnover relating to these sales but suspend transfer of title until we receive payment in full. The outstanding amount owed to us is reflected in trade receivables on our balance sheet.

Rental Income from Operating Leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Rental income from operating leases excludes business tax. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

LAT

We are subject to LAT in the PRC. LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, calculated as the proceeds of sales of properties less deductible expenditures including (i) land acquisition costs, (ii) costs related to the development of land, new buildings and related facilities, (iii) expenses, including finance costs and selling and general administrative expenses, of the land development and project constructions, (iv) the appraised price of any existing buildings and structures on the land, (v) taxes related to the assignment of the real property, and (vi) for taxpayers that are real property developers, a further deduction which is equal to 20% of the aggregate of (i) and (ii) above. To date, consistent with what we believe other property developers are required to pay in Beijing and Shanghai, we have made provisional payments of LAT at a rate of 1%-2% (and at a rate of 5% for Wangjing SOHO) on the gross proceeds of pre-sales of our properties. We also estimate and make adequate provisions for the amount of LAT payable under law and recognize these provisions in the income tax line item in our statement of comprehensive income when we recognize revenue from sale of our properties. We recognized LAT in 2009, 2010 and 2011 and the six months ended June 30, 2012 of RMB1,081.9 million, RMB3,025.3 million, RMB822.2 million (US\$129.4 million) and RMB195.6 million (US\$30.8 million), respectively. We believe we have been in compliance with relevant LAT rules and regulations effective from time to time. Because at the time we deliver property we may not have completed the entire phase of a project or an entire project, our estimate of LAT provision requires us to use significant judgement with respect to, among other things, the total proceeds to be derived from the sale of the entire phase of the project or the entire project, the total appreciation of land value and various deductible items. The ultimate tax determination by the relevant tax authorities may differ from the amounts that were initially recorded, which will affect the income tax and deferred income tax provisions in the relevant periods.

Properties under Development and Completed Properties Held for Sale

Properties under development and completed properties held for sale in respect of property development activities are carried at the lower of cost and net realizable value. Cost of properties under development for sale comprises (i) specifically identified costs, including aggregate construction cost attributable to the relevant project materials and supplies, wages and other direct expenses, (ii) an appropriate proportion of capitalized overhead costs and (iii) capitalized borrowing costs. We determine net realizable value by reference to prevailing market conditions, including the prices of what we consider to be closely comparable properties, and other factors that affect the price of our properties, less applicable variable selling expenses and the anticipated costs to completion. Significant estimates and judgement are therefore required.

The cost of completed properties developed by us is determined by apportionment of the total development costs for that development project attributable to the unsold properties, which comprises all costs of purchase, costs of conversion and other costs incurred in the development of a project. We determine net realizable value

by reference to prevailing market conditions, including the prices of what we consider to be closely comparable properties, and other factors that affect the price of our properties, less applicable variable selling expenses. Significant estimates and judgement are therefore required.

Impairment for Trade and Other Receivables

We estimate impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments for our properties. Our estimates are based on the aging of the trade and other receivable balance, customer credit profile and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

Impairment for Property and Equipment

If circumstances indicate that the net book value of a property or equipment may not be recoverable, we may consider the asset “impaired” and recognize an impairment loss. We review the carrying amounts of property and equipment periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price (calculated as fair value less cost to sell) and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of fair market value selling price and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of selling price and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Recognition and Allocation of Construction Costs on Properties under Development

Development costs of properties are recorded as properties under development during the construction stage and are transferred to profit or loss 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 us based on management’s best estimate. When developing properties, we typically 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 market value of each phase as a percentage of the total estimated market value of the entire project, or if this is not practicable, the common costs are allocated to individual phases based on the estimated market value of each phase as a percentage of the total estimated market value of the entire project, or if the above is not practicable, the common costs are allocated to individual based on saleable area. 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.

CERTAIN INCOME STATEMENT ITEMS

Turnover

Turnover represents revenue from the sale of property units and leasing of investment properties, net of business tax.

Cost of Properties Sold

Our cost of properties sold consists of costs of land and costs of construction. Costs of land primarily consist of land premium and relocation costs and, to a lesser extent, costs relating to infrastructure preparation. Land premium set by the government for land zoned for commercial use is generally higher than land zoned for residential use. Construction costs encompass all costs for the design and construction of a project, including payments to independent contractors, costs of raw materials, foundation and substructure, fittings, facilities for utilities, related infrastructure such as roads and pipelines and capitalized finance costs.

Valuation Gains on Investment Properties

We hold our investment properties at fair value and record valuation gains or losses on our income statement. See “—Key Factors Affecting Results of Operations and Financial Condition—Change in Fair Value of Our Investment Properties” above.

Other Revenue and Income

Our other revenue and income consists primarily of income arising from our hotel operations and property management services.

Selling Expenses

Our selling expenses primarily consist of advertisement and promotion expenses and commissions and various other expenses relating to our selling and marketing activities, including salaries for marketing staff, any exemption of property management fees we provide as an incentive for certain property purchasers, service center expenses and stamp duties.

Administrative Expenses

Our administrative expenses primarily consist of directors’ remuneration, salaries and welfare benefits for our staff, depreciation and office expenses.

Other Operating Expenses

Our other operating expenses primarily consist of hotel operation expenses, property management service expenses and charitable donations.

Financial Income

Our financial income primarily consists of interest we earn on financial assets, bank deposits, sales deposits from pre-sales of our projects, net foreign exchange gain and net gain on settlement of financial assets at fair value through profit or loss.

Financial Expenses

Our financial expenses primarily consists of interest expenses on bank loans and the Convertible Bonds and bank charges, less interest expenses capitalized into properties under development.

Government Grants

We received certain government grants in 2009, 2010 and 2011 from local governments in connection with certain completed projects pursuant to the regulations issued by the respective local governments.

Share of Profit of a Jointly Controlled Entity

Through an agreement entered into in December 2011, we indirectly acquired a 50% interest in Shanghai Haizhimen Property Investment Management Co., Ltd., or Shanghai Haizhimen, which indirectly holds the Bund 8-1 Land, and Shanghai Haizhimen became a jointly controlled entity to us. We therefore record 50% of Shanghai Haizhimen's profit or loss on our income statement.

Income Tax

The provision for PRC income tax consists primarily of PRC Enterprise Income Tax and LAT. The provision for PRC Enterprise Income Tax for our subsidiaries in the PRC is based on a statutory rate of 25% of the taxable income as determined in accordance with the relevant income tax rules and regulations of the PRC. For LAT provisions, see “—Factors Affecting Our Results of Operations—LAT” above.

Pursuant to the rules and regulations of the Cayman Islands, the British Virgin Islands and Barbados, we are not subject to any income tax in the Cayman Islands, the British Virgin Islands or Barbados.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Apart from certain limited exceptions, deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized to the extent that it is probable that taxable profits will be available against which those 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

RESULTS OF OPERATIONS

The following table sets forth our results of operations for the periods indicated which are derived from the consolidated statements of comprehensive income included in this offering memorandum. Our historical results presented below are not necessarily indicative of future results.

SELECTED INCOME STATEMENT INFORMATION

	For the year ended December 31,				For the six months ended June 30,		
	2009	2010	2011	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
				(unaudited)	(unaudited)	(unaudited)	(unaudited)
				(in thousands)			
Turnover	7,413,451	18,215,091	5,684,822	894,825	2,645,634	1,222,378	192,410
Cost of properties sold . . .	(3,556,393)	(8,958,349)	(2,954,246)	(465,016)	(1,128,708)	(640,869)	(100,877)
Gross profit.	3,857,058	9,256,742	2,730,576	429,809	1,516,926	581,509	91,533
Valuation gains on investment properties . . .	2,144,461	165,000	4,027,445	633,944	1,997,026	423,351	66,638
Other revenue and income . .	115,065	207,438	276,142	43,466	103,542	90,473	14,241
Selling expenses	(262,084)	(547,437)	(237,661)	(37,409)	(107,545)	(54,056)	(8,509)
Administrative expenses . .	(184,801)	(204,776)	(210,511)	(33,136)	(79,119)	(90,463)	(14,239)
Other operating expenses . .	(121,857)	(153,132)	(134,097)	(21,108)	(54,013)	(63,846)	(10,050)
Profit from operations . . .	5,547,842	8,723,835	6,451,894	1,015,566	3,376,817	886,968	139,614
Financial income	233,693	224,394	559,453	88,061	234,846	272,123	42,834
Financial expenses	(146,620)	(292,351)	(350,752)	(55,210)	(132,159)	(195,950)	(30,844)
Government grants	23,795	44,190	201,285	31,683	–	–	–
Share of profit of a jointly controlled entity	–	–	–	–	–	77,105	12,137
Profit before taxation . . .	5,658,710	8,700,068	6,861,880	1,080,100	3,479,504	1,040,246	163,741
Income tax	(2,264,020)	(4,928,485)	(2,375,458)	(373,911)	(1,283,642)	(397,590)	(62,583)
Profit for the year/ period	<u>3,394,690</u>	<u>3,771,583</u>	<u>4,486,422</u>	<u>706,189</u>	<u>2,195,862</u>	<u>642,656</u>	<u>101,158</u>
Attributable to:							
Equity shareholders of the Company	3,300,178	3,636,156	3,892,308	612,672	1,750,143	612,575	96,423
Non-controlling interests . .	94,512	135,427	594,114	93,517	445,719	30,081	4,735
Profit for the year/ period	<u>3,394,690</u>	<u>3,771,583</u>	<u>4,486,422</u>	<u>706,189</u>	<u>2,195,862</u>	<u>642,656</u>	<u>101,158</u>

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Turnover. We derived a significant portion of our turnover for the six months ended June 30, 2012 from sale of property units. Our turnover from sale of property units for the period was mainly from sales at SOHO Zhongshan Plaza and The Exchange-SOHO. The table below sets forth our turnover from sale of property units and rental income from investment properties for the periods indicated:

	For the six months ended June 30,		
	2011	2012	2012
	(RMB)	(RMB)	(US\$)
		(in thousands)	
Sale of property units	2,611,114	1,146,253	180,427
Rental income from investment properties	34,520	76,125	11,983
Total	<u>2,645,634</u>	<u>1,222,378</u>	<u>192,410</u>

Our turnover decreased by 53.8% to RMB1,222.4 million (US\$192.4 million) for the six months ended June 30, 2012 from RMB2,645.6 million for the six months ended June 30, 2011. The decrease in our turnover was attributable to a decrease in GFA delivered and the average selling price with respect to our property units for sale. GFA delivered (excluding GFA of car parks) decreased by 45.3% to approximately 23,179 sq.m. for the six months ended June 30, 2012 from approximately 42,411 sq.m. for the six months ended June 30, 2011. The average selling price of GFA delivered (excluding turnover and GFA relating to car parks delivered) also decreased to RMB49,022 per sq.m. for the six months ended June 30, 2012 as compared to RMB63,536 per sq.m. for the corresponding period in 2011. The decrease in GFA delivered was primarily due to our development schedule which determined the amount and type of properties available for sale in a given period, and the decrease in average selling price was primarily due to the different types of properties we delivered.

Cost of Properties Sold. Our cost of properties sold decreased by 43.2% to RMB640.9 million (US\$100.9 million) for the six months ended June 30, 2012 from RMB1,128.7 million for the six months ended June 30, 2011, primarily due to a decrease in the GFA delivered primarily as a result of different types of properties delivered.

Gross Profit. As a result of the foregoing, our gross profit decreased by 61.7% to RMB581.5 million (US\$91.5 million) for the six months ended June 30, 2012 from RMB1,516.9 million for the six months ended June 30, 2011. Our gross profit margin decreased to 47.6% in the six months ended June 30, 2012 from 57.3% in the six months ended June 30, 2011, primarily due to the decrease in the average selling price of GFA delivered.

Valuation Gains on Investment Properties. Our valuation gains on investment properties amounted to RMB423.4 million (US\$66.6 million) for the six months ended June 30, 2012 and RMB1,997.0 million for the six months ended June 30, 2011. Our valuation gains on investment property for the six months ended June 30, 2012 were mainly attributable to appreciation of investment properties held by us during such period, including properties that were completed and under construction. We recorded lower valuation gains for the six months ended June 30, 2012, primarily due to less reclassification into and completion of investment properties during the period as compared to the corresponding period in 2011.

Other Revenue and Income. Our other revenue and income decreased by 12.6% to RMB90.5 million (US\$14.2 million) for the six months ended June 30, 2012 from RMB103.5 million for the six months ended June 30, 2011, primarily due to a decrease in revenue from our Commune by the Great Wall and property management services.

Selling Expenses. Our selling expenses decreased by 49.7% to RMB54.1 million (US\$8.5 million) for the six months ended June 30, 2012 from RMB107.5 million for the six months ended June 30, 2011, in line with the decrease in the GFA delivered.

Administrative Expenses. Our administrative expenses increased by 14.4% to RMB90.5 million (US\$14.2 million) for the six months ended June 30, 2012 from RMB79.1 million for the six months ended June 30, 2011, primarily due to an increase in employee headcount as a result of our increased development scale.

Other Operating Expenses. Our other operating expenses increased by 18.1% to RMB63.8 million (US\$10.1 million) for the six months ended June 30, 2012 from RMB54.0 million for the six months ended June 30, 2011, primarily due to a decrease in expenses relating to our Commune by the Great Wall and property management services.

Financial Income. Our financial income increased by 15.9% to RMB272.1 million (US\$42.8 million) for the six months ended June 30, 2012 from RMB234.8 million for the six months ended June 30, 2011, primarily due to an increase in interest income on our bank deposits, slightly offset by a decrease in our net gain on financial assets held for trading to RMB0 for the six months ended June 30, 2012 from RMB57.0 million for the six months ended June 30, 2011.

Financial Expenses. Our financial expenses increased by 48.3% to RMB196.0 million (US\$30.8 million) for the six months ended June 30, 2012 from RMB132.2 million for the six months ended June 30, 2011, primarily due to an increase in interest expenses resulting from an increase in the amount of bank loans, including the 2012 Credit Facility.

Share of Profit of a Jointly Controlled Entity. We recorded a share of profit of RMB77.1 million (US\$12.1 million) for the six months ended June 30, 2012 from Shanghai Haizhimen, which became our jointly controlled entity during the period.

Profit before Taxation. As a result of the foregoing, our profit before taxation decreased by 70.1% to RMB1,040.2 million (US\$163.7 million) for the six months ended June 30, 2012 from RMB3,479.5 million for the six months ended June 30, 2011.

Income Tax. Our income tax decreased by 69.0% to RMB397.6 million (US\$62.6 million) for the six months ended June 30, 2012 from RMB1,283.6 million for the six months ended June 30, 2011. Such decrease was mainly attributable to the decrease in our profit before taxation for the six months ended June 30, 2012.

Profit Attributable to Equity Shareholders of the Company. As a result of the foregoing, profit attributable to equity holders of our Company decreased by 65.0% to RMB612.6 million (US\$96.4 million) for the six months ended June 30, 2012 from RMB1,750.1 million for the six months ended June 30, 2011.

2011 Compared to 2010

Turnover. We derived a significant portion of our turnover in 2011 from sale of property units. Our turnover from sale of property units for the year was mainly from sales at Danling SOHO, The Exchange-SOHO and SOHO Zhongshan Plaza. The table below sets forth our turnover from sale of property units and rental income from investment properties for the years indicated:

	For the year ended December 31,		
	2010	2011	2011
	(RMB)	(RMB)	(US\$)
		(in thousands)	
Sale of property units	18,105,453	5,593,729	880,486
Rental income from investment properties	109,638	91,093	14,339
Total	18,215,091	5,684,822	894,825

Our turnover decreased by 68.8% to RMB5,684.8 million (US\$894.8 million) in 2011 from RMB18,215.1 million in 2010. The decrease in our turnover was attributable to a decrease in GFA delivered, slightly offset by an increase in the average selling price. GFA delivered (excluding GFA of car parks) decreased by 75.5% to approximately 100,315 sq.m. in 2011 from approximately 409,106 sq.m. in 2010. The average selling price of GFA delivered (excluding turnover and GFA relating to car parks delivered) increased by 27.3% to approximately RMB56,670 (US\$8,920.2) per sq.m. in 2011 from approximately RMB44,524 per sq.m. in 2010. Our average selling prices increased, as we delivered more properties with higher selling prices in 2011 as compared to 2010.

Cost of Properties Sold. Our cost of properties sold decreased by 67.0% to RMB2,954.2 million (US\$465.0 million) in 2011 from RMB8,958.3 million in 2010, in line with the decrease in GFA delivered primarily as a result of different types of properties delivered.

Gross Profit. As a result of the foregoing, our gross profit decreased by 70.5% to RMB2,730.6 million (US\$429.8 million) in 2011 from RMB9,256.7 million in 2010. Our gross profit margin decreased to 48.0% in 2011 from 50.8% in 2010. The decrease in the gross profit margin was primarily due to the different profitability of projects delivered during the year.

Valuation Gains on Investment Properties. Our valuation gains on investment properties amounted to RMB4,027.4 million (US\$633.9 million) in 2011 and RMB165.0 million in 2010. Our valuation gains on investment properties in 2011 increased as compared to those in 2010, as we developed more investment properties and reclassified more properties originally held for sale into investment properties in 2011, including properties completed and properties under construction.

Other Revenue and Income. Our other revenue and income increased by 33.1% to RMB276.1 million (US\$43.5 million) in 2011 from RMB207.4 million in 2010, primarily due to the gain on the disposal of certain PRC subsidiaries in 2011 and increased revenue from property management services.

Selling Expenses. Our selling expenses decreased by 56.6% to RMB237.7 million (US\$37.4 million) in 2011 from RMB547.4 million in 2010, primarily due to decreases in GFA delivered in 2011.

Administrative Expenses. Our administrative expenses increased by 2.8% to RMB210.5 million (US\$33.1 million) in 2011 from RMB204.8 million in 2010, primarily due to the increased headcount as a result of our expansion in Shanghai.

Other Operating Expenses. Our other operating expenses decreased by 12.4% to RMB134.1 million (US\$21.1 million) in 2011 from RMB153.1 million in 2010, primarily due to decreases in leasing agent commissions and donations.

Financial Income. Our financial income increased by 149.3% to RMB559.5 million (US\$88.1 million) in 2011 from RMB224.4 million in 2010, primarily due to an increase in interest income on our bank deposits and an increase in net gain on settlement of financial assets held for trading of RMB65.1 million.

Financial Expenses. Our financial expenses increased by 20.0% to RMB350.8 million (US\$55.2 million) in 2011 from RMB292.4 million in 2010, primarily due to an increase in interest expenses resulting from an increase in the amount of loans borrowed in 2011, including the 2011 Credit Facility.

Government Grants. Our government grants increased by 355.4% to RMB201.3 million (US\$31.7 million) in 2011 from RMB44.2 million in 2010. We received government grants in 2011 in relation to certain completed projects from the Finance Bureau of Dongcheng District of Beijing and the Finance Bureau of Jing'an District of Shanghai pursuant to the regulations issued by the respective local governments.

Profit before Taxation. As a result of the foregoing, our profit before taxation decreased by 21.1% to RMB6,861.9 million (US\$1,080.1 million) in 2011 from RMB8,700.1 million in 2010.

Income Tax. Our income tax decreased by 51.8% to RMB2,375.5 million (US\$373.9 million) in 2011 from RMB4,928.5 million in 2010. Such decrease was mainly attributable to the decrease in our profit before taxation in 2011.

Profit Attributable to Equity Shareholders of the Company. As a result of the foregoing, our profit attributable to equity holders of our Company increased by 7.0% to RMB3,892.3 million (US\$612.7 million) in 2011 from RMB3,636.2 million in 2010.

2010 Compared to 2009

Turnover. We derived a significant portion of our turnover in 2010 from sale of property units. Our turnover from sale of property units for the year was mainly from sales at Sanlitun SOHO, ZhongGuanCun SOHO, Chaoyangmen SOHO Phase II, SOHO Nexus Centre, The Exchange-SOHO and Beijing SOHO Residences. The table below sets forth our turnover from sale of property units and rental income from investment property for the years indicated:

	For the year ended December 31,	
	2009	2010
	(RMB)	(RMB)
	(in thousands)	
Sale of property units	7,342,132	18,105,453
Rental income from investment property	71,319	109,638
Total	7,413,451	18,215,091

Our turnover increased by 145.7% to RMB18,215.1 million in 2010 from RMB7,413.5 million in 2009. The increase in our turnover was attributable to an increase in GFA delivered and an increase in the average selling price. GFA delivered (excluding GFA of car parks) increased by 130.5% to approximately 409,106 sq.m. in 2010 from 177,483 sq.m. in 2009 primarily due to the greater number of projects that completed construction

and became available for sale in 2010. The average selling price of GFA delivered (excluding turnover and GFA relating to car parks delivered) increased by 8.7% to approximately RMB44,524 per sq.m. in 2010 from approximately RMB40,956 per sq.m. in 2009, as we delivered more properties with higher selling prices in 2010 as compared to 2009.

Cost of Properties Sold. Our cost of properties sold increased by 151.9% to RMB8,958.3 million in 2010 from RMB3,556.4 million in 2009, in line with the increase in GFA delivered in 2010 primarily as a result of different types of properties delivered.

Gross Profit. As a result of the foregoing, our gross profit increased by 140.0% to RMB9,256.7 million in 2010 from RMB3,857.1 million in 2009. Our gross profit margin decreased slightly to 50.8% in 2010 from 52.0% in 2009, primarily due to the different profitability of projects delivered during 2010.

Valuation Gains on Investment Properties. Our valuation gains on investment properties amounted to RMB165.0 million in 2010 and RMB2,144.5 million in 2009. Our valuation gains on investment properties in 2009 and 2010 was attributable to the 22,454 sq.m. of Tiananmen South (Qianmen) project completed in 2009. Our valuation gains on investment properties in 2010 decreased as compared to those in 2009 as we recorded the initial valuation gains on the Tiananmen South (Qianmen) project in 2009 when it was completed.

Other Revenue and Income. Our other revenue and income increased by 80.2% to RMB207.4 million in 2010 from RMB115.1 million in 2009, primarily due to rental income from the Exchange—SOHO, SOHO Nexus Centre and ZhongGuanCun SOHO.

Selling Expenses. Our selling expenses increased by 108.9% to RMB547.4 million in 2010 from RMB262.1 million in 2009, primarily due to the significant increase in GFA delivered in 2010.

Administrative Expenses. Our administrative expenses increased by 10.8% to RMB204.8 million in 2010 from RMB184.8 million in 2009, primarily due to our growth with increased employee headcount.

Other Operating Expenses. Our other operating expenses increased by 25.6% to RMB153.1 million in 2010 from RMB121.9 million in 2009, primarily due to increases in leasing agent commissions and donations.

Financial Income. Our financial income decreased by 4.0% to RMB224.4 million in 2010 from RMB233.7 million in 2009, primarily due to a decrease in net gain on financial assets of RMB34.3 million, partially offset by an increase in net foreign exchange gain of RMB22.2 million.

Financial Expenses. Our financial expenses increased by 99.5% to RMB292.4 million in 2010 from RMB146.6 million in 2009, primarily due to an increase in interest expenses resulting from new bank loans borrowed in 2010 and an increase in interest expenses on our Convertible Bonds, which were issued in July 2009 and incurred interest expenses afterwards.

Government Grants. Our government grants increased by 85.7% to RMB44.2 million in 2010 from RMB23.8 million in 2009. We received government grants in 2010 in relation to certain completed projects from the Finance Bureau of Huairou County of Beijing, the Finance Bureau of Chongwen District of Beijing and the Finance Bureau of Dongcheng District of Beijing pursuant to the local regulations issued by the respective local governments.

Profit before Taxation. As a result of the foregoing, our profit before taxation increased by 53.7% to RMB8,700.1 million in 2010 from RMB5,658.7 million in 2009.

Income Tax. Our income tax increased by 117.7% to RMB4,928.5 million in 2010 from RMB2,264.0 million in 2009. Such increase was attributable to the increases in our PRC Enterprise Income Tax and LAT due to our increased profit before taxation in 2010.

Profit Attributable to Equity Shareholders of the Company. As a result of the foregoing, our profit attributable to equity holders of our Company increased by 10.2% to RMB3,636.2 million in 2010 from RMB3,300.2 million in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table sets forth our net cash flow from the periods indicated:

	For the year ended December 31,				For the six months ended June 30,		
	2009	2010	2011	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
				(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in thousands)						
Net cash generated from/(used in) operating activities . . .	2,978,229	12,789,947	(4,229,657)	(665,773)	(3,522,231)	(11,682)	(1,839)
Net cash (used in)/generated from investing activities . . .	(7,619,046)	(6,676,964)	978,416	154,008	(1,795,463)	(4,746,327)	(747,100)
Net cash generated from (used in) financing activities	2,887,184	686,503	484,312	76,234	147,733	(769,076)	(121,057)
Net (decrease)/increase in cash and cash equivalents	(1,753,633)	6,799,486	(2,766,929)	(435,531)	(5,169,961)	(5,527,085)	(869,996)
Cash and cash equivalents at end of year/period	7,122,768	14,034,497	11,202,232	1,763,298	8,896,362	5,665,285	891,750

Cash Flow From Operating Activities

For the six months ended June 30, 2012, our net cash used in operating activities of RMB11.7 million (US\$1.84 million) was attributable to tax paid of RMB1,874.4 million (US\$295.0 million) and interest paid of RMB400.6 million (US\$63.1 million), partially offset by cash generated from operations of RMB2,001.9 million (US\$315.1 million) and interest received of RMB261.4 million (US\$41.1 million). Cash generated from operations prior to changes in working capital was RMB468.0 million (US\$73.7 million). Changes in working capital contributed to a net cash inflow of RMB1,533.9 million (US\$241.4 million), consisting of (i) an increase in sales deposits of RMB2,732.3 million (US\$430.1 million), (ii) a decrease in deposits and prepayments of RMB1,968.2 million (US\$309.8 million) and (iii) an increase in trade and other payables of RMB60.0 million (US\$9.4 million), partially offset by an increase in properties under development and completed properties held for sale of RMB2,135.3 million (US\$336.1 million) and an increase in trade and other receivables of RMB1,091.3 million (US\$171.8 million).

In 2011, our net cash used in operating activities of RMB4,229.7 million (US\$665.8 million) was attributable to income tax paid of RMB2,990.4 million (US\$470.7 million), cash used in operations of RMB996.0 million (US\$156.8 million) and interest paid of RMB620.6 million (US\$97.7 million), partially offset by interest received of RMB377.3 million (US\$59.4 million). Cash generated from operations prior to changes in working capital was RMB2,516.7 million (US\$396.1 million), primarily as a result of profit before taxation of RMB6,861.9 million (US\$1,080.1 million) partially offset by adjustment for valuation gains on investment properties of RMB4,027.4 million (US\$633.9 million). Changes in working capital contributed to a net cash outflow of RMB3,512.7 million (US\$552.9 million), consisting of (i) an increase in deposits and prepayments of RMB3,836.1 million (US\$603.8 million), (ii) an increase in trade and other payables of RMB3,436.5 million (US\$540.9 million) and (iii) an increase in properties under development and completed properties held for sale of RMB2,962.5 million (US\$466.3 million), partially offset by an increase in sales deposits of RMB6,478.6 million (US\$1,019.8 million) and a decrease in trade and other receivables of RMB243.8 million (US\$38.4 million).

In 2010, our net cash generated from operating activities of RMB12,789.9 million was attributable to cash generated from operations of RMB15,073.6 million and interest received of RMB153.7 million, partially offset by income tax paid of RMB1,927.7 million and interest paid of RMB509.7 million. Cash generated from operations prior to changes in working capital was RMB8,596.6 million. Changes in working capital contributed to a net cash inflow of RMB6,477.0 million, consisting of a decrease in properties under development and completed properties held for sale of RMB6,173.8 million and an increase in sales deposits of RMB1,405.8 million, partially offset by (i) an increase in trade and other payables of RMB920.8 million, (ii) an increase in trade and other receivables of RMB118.8 million and (iii) an increase in deposits and prepayments of RMB63.0 million.

In 2009, our net cash generated from operating activities of RMB2,978.2 million was attributable to cash generated from operations of RMB3,797.7 million and interest received of RMB150.9 million, partially offset by income tax paid of RMB647.7 million and interest paid of RMB322.6 million. Cash generated from operations prior to changes in working capital was RMB3,451.4 million, primarily as a result of profit before taxation of RMB5,658.7 million, partially offset by adjustments for valuation gains on investment property of RMB2,144.5 million. Changes in working capital contributed to a net cash inflow of RMB346.3 million, consisting of an increase in trade and other payables of RMB3,464.9 million, partially offset by an increase in properties under development and completed properties held for sale of RMB2,733.5 million and an increase in trade and other receivables of RMB385.1 million.

Cash Flow from Investing Activities

For the six months ended June 30, 2012, our net cash used in investing activities was RMB4,746.3 million (US\$747.1 million), primarily attributable to (i) net cash outflow arising from the acquisition of a joint venture of RMB3,931.3 million (US\$618.8 million), (ii) net cash outflow arising from the acquisition of subsidiaries of RMB1,091.7 million (US\$171.8 million) and (iii) acquisition of minority interests of RMB500.0 million (US\$78.7 million), partially offset by a decrease in term deposits with banks after 3 months within 1 year of RMB495.9 million (US\$78.1 million) and a decrease in restricted bank deposits of RMB479.6 million (US\$75.5 million).

In 2011, our net cash generated from investing activities was RMB978.4 million (US\$154.0 million), primarily attributable to (i) proceeds from settlement of financial assets at fair value through profit or loss of RMB15,548.9 million (US\$2,447.5 million), (ii) a decrease in term deposits with banks and other financial institutions over three months of RMB2,986.5 million (US\$470.1 million), partially offset by payment for purchase of financial assets at fair value through profit or loss of RMB15,483.8 million (US\$2,437.2 million) and net cash outflow arising from the acquisition of subsidiaries of RMB1,630.5 million (US\$256.7 million).

In 2010, net cash used in investing activities was RMB6,677.0 million, primarily attributable to (i) an increase in bank deposits of RMB2,563.2 million, (ii) an increase in term deposits with banks and other financial institutions over three months of RMB1,571.3 million and (iii) net cash outflow arising from the acquisition of subsidiaries of RMB1,521.9 million.

In 2009, our net cash used in investing activities was RMB7,619.0 million, primarily attributable to (i) new cash outflow arising from the acquisition of subsidiaries of RMB4,768.0 million, (ii) payment for purchase of fixed assets of RMB1,352.8 million and (iii) an increase in term deposits with banks and other financial institutions over three months of RMB1,097.1 million.

Cash Flow from Financing Activities

For the six months ended June 30, 2012, our net cash used in financing activities was RMB769.1 million (US\$121.1 million), primarily attributable to (i) repayment of bank loans of RMB2,171.0 million (US\$341.7 million) and (ii) dividends paid of RMB570.1 million (US\$89.7 million), partially offset by proceeds from bank loans of RMB1,972.7 million (US\$310.5 million).

In 2011, our net cash generated from financing activities was RMB484.3 million (US\$76.2 million), primarily attributable to proceeds from bank loans of RMB5,301.3 million (US\$834.5 million), partially offset by repayment of bank loans of RMB3,325.9 million (US\$523.5 million) and dividends paid to equity shareholders of the Company of RMB1,452.2 million (US\$228.6 million).

In 2010, our net cash generated from financing activities was RMB686.5 million, primarily attributable to proceeds from bank loans of RMB5,802.7 million, partially offset by repayment of bank loans of RMB3,489.4 million and dividends paid to equity shareholders of the Company of RMB1,660.1 million.

In 2009, our net cash generated from financing activities was RMB2,887.2 million, primarily attributable to (i) proceeds from issue of the Convertible Bonds of RMB2,467.9 million and (ii) proceeds from bank loans of RMB2,154.0 million, partially offset by repayment of bank loans of RMB1,117.6 million and dividends paid to equity shareholders of the Company of RMB518.8 million.

Capital Resources

Property developments require substantial capital investment for land acquisition and construction and may take months or years before positive cash flow can be generated. We principally fund our property developments from internal funds, borrowings from banks, proceeds from sales and pre-sales of our properties, capital contributions from shareholders and proceeds from issuance of equity and debt securities. Our financing methods may vary from project to project and are subject to limitations imposed by PRC regulations and monetary policies.

Bank Balances and Cash

As of December 31, 2009, 2010 and 2011 and June 30, 2012, our bank balances and cash amounted to RMB7,122.8 million, RMB14,034.5 million, RMB11,202.2 million (US\$1,763.3 million) and RMB5,665.3 million (US\$891.8 million), respectively. Our bank balances and cash decreased by RMB5,536.9 million (US\$871.5 million), or 49.4%, to RMB5,665.3 million (US\$891.8 million) as of June 30, 2012 from RMB11,202.2 million as of December 31, 2011, primarily due to net cash outflows from operating, investing and financing activities. Our bank balances and cash decreased by RMB2,832.3 million, or 20.2%, to RMB11,202.2 million (US\$1,763.3 million) as of December 31, 2011 from RMB14,034.5 million as of December 31, 2010, primarily due to net cash outflow from operating activities, partially offset by net cash generated from investing and financing activities. Our bank balances and cash increased by RMB6,911.7 million to RMB14,034.5 million

as of December 31, 2010 from RMB7,122.8 million as of December 31, 2009, primarily due to net cash inflows from operating and financing activities, partially offset by net cash used in investing activities.

Borrowings

Our borrowings consist of loans from commercial banks and other financial institutions. As of June 30, 2012, we had an aggregate bank borrowings of RMB11,524.3 million (US\$1,814.0 million), of which the equivalent of RMB3,147.7 million and RMB3,941.6 million was denominated in Hong Kong dollars and U.S. dollars, respectively (translated at various exchange rates), and the remaining RMB4,435.0 million was denominated in Renminbi. Substantially all of our borrowings are secured primarily by our properties under development and completed properties held for sale, our investment properties and our bank deposits.

Our borrowings have a variety of maturities from less than one year to more than ten years. As of June 30, 2012, our fixed rate borrowings had interest rates of 3.75% *per annum*, and our variable rate borrowings had interest rates based on PBOC announced prime rate or HIBOR or LIBOR.

The following table sets forth the level of our borrowings and their respective maturity profiles as of the dates indicated:

	As of December 31,			As of June 30,		
	2009	2010	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
				(unaudited)	(unaudited)	(unaudited)
	(in thousands)					
Bank loan.	6,319,660	8,632,915	11,637,429	1,831,800	11,524,303	1,813,994
	6,319,660	8,632,915	11,637,429	1,831,800	11,524,303	1,813,994
Secured	4,750,000	6,428,949	11,631,129	1,830,809	11,517,978	1,812,198
Unsecured	1,569,660	2,203,966	6,300	991	6,325	996
	6,319,660	8,632,915	11,637,429	1,831,800	11,524,303	1,813,994
Carrying amount repayable:						
Within one year.	550,000	2,580,744	2,214,593	348,590	3,206,352	504,699
More than one year, but not exceeding two years.	2,400,000	3,323,222	3,656,815	575,604	4,198,015	660,793
More than two years, but not exceeding five years	3,369,660	1,803,949	5,311,021	835,986	3,734,936	587,901
More than five years	–	925,000	455,000	71,620	385,000	60,601
	6,319,660	8,632,915	11,637,429	1,831,800	11,524,303	1,813,994

Convertible Bonds

On July 2, 2009, we issued five-year HK\$2,800.0 million Convertible Bonds, bearing interest at a rate of 3.75% *per annum*. Each Convertible Bond is convertible on or after August 11, 2009 up to and including June 25, 2014 into ordinary shares of our Company at an initial conversion price of HK\$5.88 per share. The conversion price has been adjusted a number of times as a result of dividends declared during the previous years. As of June 30, 2012, the conversion price was HK\$5.26 per share. As of June 30, 2012, the carrying amount of the liability and equity components of the Convertible Bonds was RMB2,050 million (US\$323 million) and RMB514 million (US\$81 million), respectively. According to the terms of the Convertible Bonds, the convertible bond holders were granted an option to request the Company to redeem all or some of such holders' convertible bonds on July 2, 2012 at their principal amount, together with accrued but unpaid interest to the date of redemption. No such option was exercised.

2011 Credit Facility

On June 22, 2011, the Company entered into the 2011 Facility Agreement with a syndicate of banks for an up to US\$605.0 million equivalent (RMB3,843.6 million) three-year transferable term loan facility, bearing interest at a rate being the applicable London Interbank Offered Rate, or LIBOR (for borrowings denominated in U.S. dollars), or Hong Kong Interbank Offered Rate, or HIBOR (for borrowings denominated in H.K. dollars), plus 3.55% *per annum*. We use amounts drawn under the 2011 Credit Agreement to finance our general corporate funding requirements. As of June 30, 2012, we had drawn down US\$230.0 million and HK\$2,916.5 million (US\$376.0 million) under the 2011 Facility Agreement.

2012 Credit Facility

On June 5, 2012, we entered into the 2012 Facility Agreement with a syndicate of banks for an up to US\$626.0 million equivalent (RMB3,977.0 million) three-year transferrable term loan facility, bearing interest at a rate being the applicable LIBOR (for borrowings denominated in U.S. dollars) or HIBOR (for borrowings denominated in H.K. dollars) plus 4.25% *per annum*. We use amounts drawn under the 2012 Facility Agreement to finance our general corporate funding requirements. As of June 30, 2012, we had drawn down US\$80.1 million and HK\$219.7 million (US\$28.3 million) under the 2012 Facility Agreement.

COMMITMENTS

We fund our contractual commitments using any one or a combination of internal cash flow, bank loans, shareholders' contributions and funds raised from the capital markets. The table below sets forth our commitments not provided for in our financial statements as of June 30, 2012:

	As of June 30, 2012	
	(RMB)	(US\$)
	(in thousands)	
Commitments in respect of properties under development, investment properties and purchase of properties:		
Contracted for	5,443,224	856,796
Authorized but not contracted for	7,505,728	1,181,446
	<u>12,948,952</u>	<u>2,038,242</u>

	As of June 30, 2012	
	(RMB)	(US\$)
	(in thousands)	
The Group's share of the jointly controlled entity's own capital commitments:		
Authorized but not contracted for	2,493,810	392,541
	<u>2,493,810</u>	<u>392,541</u>
Commitments in respect of equity investments outstanding:		
Contracted for	250	39
	<u>250</u>	<u>39</u>

CONTINGENT LIABILITIES

As of June 30, 2012, we had entered into agreements with certain banks to provide guarantees in respect to mortgage loans provided to buyers of property units. The amount of guaranteed mortgage loans relating to such agreements was approximately RMB3,441.5 million (US\$541.7 million) as of June 30, 2012. Such guarantees are generally released when the property title deeds are pledged to banks as security for the respective mortgage loans, which generally take place within one year after the property units are delivered to the buyers.

Pursuant to the terms of the guarantees, if there is default of the mortgage payments by purchasers of the properties, we are responsible to repay the outstanding mortgage loans, together with accrued interests thereon and any penalty owed by the purchasers in default to banks. We are entitled to take over the legal title of the related properties. No provision for the guarantee contracts was recognized in the financial statements for the six months ended June 30, 2012. See “Risk Factors—Risks Relating to Our Business—We guarantee mortgage loans provided to our purchasers and may be liable to the mortgage banks if our purchasers default on their mortgage loans.”

On June 4, 2012, we were served with a summons issued by Shanghai No. 1 Intermediate People's Court in relation to an action initiated by a subsidiary of Fosun Group, with respect to our indirect acquisition of a 50% equity interest in Shanghai Haizhimen, which indirectly holds the Bund 8-1 Land. As of the date of this offering memorandum, the legal proceedings are ongoing. In the event that Fosun Group prevails in its suit, the acquisition may be required to be unwound, with Shanghai Haizhimen ceasing to be our jointly controlled entity and the consideration we paid for the indirect acquisition of the 50% interest in Shanghai Haizhimen refunded to us from the vendors. Other than the above litigation, we are involved in certain other legal proceedings arising in the normal course of business. We don't consider any resulting liabilities will have any material adverse effect on our financial position, liquidity or operating results. See “Risk Factors — Risks Relating to Our Business — We may be involved in legal and other proceedings arising out of our operations from time to time and may incur substantial losses and face significant liabilities as a result.”

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Except for the contingent liabilities set forth above, we have not entered into any off-balance sheet arrangements or other commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

MARKET RISKS

We are exposed to various types of market risks, including commodities risk, interest rate risk, foreign exchange risk and inflation risk in the normal course of business.

Interest Rate Risk

Our business is sensitive to fluctuations in interest rates. Our exposure to changes in interest rates is mainly attributable to our borrowings, especially long-term borrowings. Borrowings at variable rates expose us to cash flow interest rate risk. Borrowings at fixed rates expose us to fair value interest rate risk. As of June 30, 2012, we had variable-rate borrowings of RMB11,524 million (US\$1,814 million) and fixed-rate borrowings of RMB2,050 million (US\$323 million). As of the date of this offering memorandum, we have not used any interest rate swap to hedge our exposure to interest rate risk.

An increase in interest rates may also adversely affect our prospective purchasers' ability to obtain financing and depress our overall demand. Higher interest rates may adversely affect our revenue and profits. The PBOC benchmark one-year lending rates in China (which directly affects the property mortgage rates offered by commercial banks in the PRC) as of December 31, 2009, 2010 and 2011 and June 30, 2012 were 5.31%, 5.81%, 6.56% and 6.31%, respectively. We cannot assure you that the PBOC will not raise lending rates in the future or that our business, financial condition and results of operations will not be adversely affected as a result of these adjustments.

We are also exposed to fluctuations in LIBOR or HIBOR, as the interests rates for amounts drawn down under the 2011 Credit Agreement and the 2012 Credit Agreement are linked to LIBOR (for borrowings denominated in U.S. dollars) and HIBOR (for borrowings denominated in H.K. dollars). See "Description of Material Indebtedness and Other Obligations." Higher interest rates may increase our finance costs, and our business, financial condition and results of operations could be adversely affected.

Foreign Exchange Rate Risk

We conduct our business almost exclusively in Renminbi. The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. 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 and more significant appreciation of Renminbi against the U.S. dollar. Fluctuations in the value of Renminbi to the U.S. dollar may adversely affect our cash flows, revenue, earnings and financial position. For example, if the value of Renminbi appreciates, we would record foreign exchange losses on bank balances and other assets we maintain in non-Renminbi currencies. Pending application of the net proceeds of this offering, we may invest the net proceeds from this offering in Temporary Cash Investments in U.S. dollars before they are used in our PRC operations. See "Risk Factors—Risks Relating to the PRC—Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on your investment." We currently do not hedge our foreign exchange risk but may do so in the future.

Commodities Risk

We are exposed to fluctuations in the prices of raw materials for our property developments, primarily steel and cement. We purchase most of our supplies of steel and cement at market prices. Such purchase costs are generally accounted for as part of contractors' fees pursuant to our arrangements with the relevant contractors. Rising prices for construction materials will therefore affect our construction costs in the form of increased fees payable to our contractors. As a result, fluctuations in the prices of our construction materials could have an impact on our results of operations.

Inflation

According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately -0.7%, 3.3% and 5.4% in the years ended December 31, 2009, 2010 and 2011, respectively. Deflation could negatively affect our business as it would be a disincentive for prospective property buyers to make a purchase.

NON-GAAP FINANCIAL MEASURES

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our profit for the year/period before the following items:

- valuation gains on investment properties;
- financial income/expenses;
- government grants;
- share of profit of a jointly controlled entity;
- income tax; and
- depreciation.

EBITDA is not a standard measure under HKFRS. As the property development business is capital intensive, capital expenditure requirements and level of debt and interest expenses may have a significant impact on the profit for the year/period of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable HKFRS measure to EBITDA is profit for the year/period. We operate in a capital intensive industry. We use EBITDA in addition to profit for the year/period because profit for the year/period includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as financial income and financial expenses. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, intangible assets amortization and interest income and expense, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

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

	For the year ended December 31,				For the six months ended June 30,		
	2009	2010	2011	2011	2011	2012	2012
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
	(in thousands)						
Profit for the year/ period	3,394,690	3,771,583	4,486,422	706,189	2,195,862	642,656	101,158
Adjustment:							
Valuation gains on investment properties	(2,144,461)	(165,000)	(4,027,445)	(633,944)	(1,997,026)	(423,351)	(66,638)
Financial income	(233,693)	(224,394)	(559,453)	(88,061)	(234,846)	(272,123)	(42,834)
Financial expenses	146,620	292,351	350,752	55,210	132,159	195,950	30,844
Government grants	(23,795)	(44,190)	(201,285)	(31,683)	–	–	–
Share of profit of a jointly controlled entity	–	–	–	–	–	(77,105)	(12,137)
Income tax	2,264,020	4,928,485	2,375,458	373,911	1,283,642	397,590	62,583
Depreciation	24,010	18,302	19,323	3,042	7,807	10,640	1,675
EBITDA	<u>3,427,391</u>	<u>8,577,137</u>	<u>2,443,772</u>	<u>384,664</u>	<u>1,387,598</u>	<u>474,257</u>	<u>74,651</u>
EBITDA margin	46.2%	47.1%	43.0%	43.0%	52.4%	38.8%	38.8%

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year/period or as an indicator of operating performance or any other standard measure under HKFRS. Our definition of EBITDA does not account for income taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indentures governing the Notes. Interest expense excludes amounts capitalized.

INDUSTRY OVERVIEW

Unless otherwise specified, the information set forth in this section has been extracted, in part, from various official government publications. Such information has not been independently verified by us, the Initial Purchasers, or any of our and their affiliates or advisors. The information may be inaccurate, incomplete, out-of-date or inconsistent with other information compiled within or outside the PRC.

MACRO-ECONOMIC ENVIRONMENT IN THE PRC

The PRC economy has grown significantly since the PRC government introduced economic reforms and adopted an open door policy in the late 1970s. Such growth was further accelerated by the country's accession to the World Trade Organization in 2001 as a result of increasing inflow of foreign investment across all sectors of the economy. Between 2007 and 2011, China's nominal Gross Domestic Product ("GDP") increased from approximately RMB26,581 billion in 2007 to approximately RMB47,288 billion in 2011 at a compound annual growth rate ("CAGR") of approximately 15.5%.

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

	2007	2008	2009	2010	2011
Nominal GDP (RMB billions)	26,581	31,405	34,093	40,153	47,288
Real GDP growth rate (%)	14.2	9.6	9.2	10.4	9.3
Per capita GDP (RMB)	20,169	23,708	25,608	30,015	35,083
Fixed asset investment (RMB billions)	13,732	17,283	22,460	27,812	31,102
Utilized foreign direct investment (US\$ billions)	74.8	92.4	90.0	105.7	116.0

Source: National Bureau of Statistics of China

PRC PROPERTY MARKET OVERVIEW

Growth of the property market in the PRC

The favorable economic environment in the PRC has fueled the growth of the PRC property market. Investment in real estate development increased by a CAGR of 25.0% from 2007 to 2011 and the total gross floor area ("GFA") sold increased at a CAGR of 9.6% from 2007 to 2011. The PRC property industry witnessed significant growth in revenue from the sale of properties, with the total real estate sales revenue increasing from RMB2,960 billion in 2007 to RMB5,912 billion in 2011 at a CAGR of approximately 18.9%. Average prices for commercial properties also rose significantly between 2007 and 2011 at a CAGR of approximately 10.2% as demand for real estate from local and foreign investors increased.

The table below sets forth selected data relating to the PRC property market for the years indicated:

	2007	2008	2009	2010	2011
Real estate investment (RMB billions)	2,528	3,058	3,623	4,827	6,174
Total GFA of commodity properties sold (million sq.m.)	762	621	948	1,044	1,100
Average price of commercial properties (RMB per sq.m.)	5,774	5,886	6,871	7,747	8,511
Average price of residential properties (RMB per sq.m.)	3,665	3,655	4,474	4,724	5,011
Revenue from sales of properties (RMB billions)	2,960	2,407	4,400	5,248	5,912

Source: National Bureau of Statistics of China

Key Drivers of the PRC Property Market

In addition to the strong growth of the PRC economy which has resulted in rising disposable income for the PRC population, rapid urbanization and certain real estate market reforms undertaken by the central government have been key contributors to the growing demand in the PRC property sector.

Urbanization

In recent years, the pace of urbanization in the PRC has been rapid with urbanization rates rising from 45.9% in 2007 to 51.3% in 2011. The China National Bureau of Statistics estimates that the PRC's urbanization rates will reach 70% by 2050. Should these rates materialize, demand for urban properties is expected to rise further.

The table below sets forth selected data relating to urbanization trends in the PRC for the years indicated:

	2007	2008	2009	2010	2011
Urban population (in millions)	606	624	645	670	691
Total population (in millions).	1,321	1,328	1,335	1,341	1,347
Urbanization rate (%)	45.9	47.0	48.3	49.9	51.3

Source: National Bureau of Statistics of China

Rising Disposable Incomes and Consumption Expenditure

Average annual disposable incomes per capita of urban households increased at a CAGR of 12.2% between 2007 and 2011, rising from RMB13,786 per capita to RMB21,810 per capita. Increased purchasing power is also demonstrated by the rising annual per capita consumption expenditure of city residents, which increased by a CAGR of approximately 11.0% between 2007 and 2011. Such increased purchasing power is a positive sign for the property market as it may indicate an increasing number of high-income people are entering the property market.

The table below sets forth selected data relating to rising disposable incomes and consumption expenditure in the PRC for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Per capita disposable income of urban households (RMB)	13,786	15,781	17,175	19,109	21,810
Per capita consumption expenditure of urban households (RMB)	9,998	11,243	12,265	13,472	15,161

Source: National Bureau of Statistics of China, CREIS

Real Estate Market Reforms and Government Policies

Growth of the property market has been promoted and made possible by a series of reforms in the PRC real estate industry, which commenced in the 1990s. Prior to the housing reform in 1998, real estate development in China was an integral part of the country’s planned economy with the PRC government developing and supplying housing for its urban population under a welfare system. The state-allocated housing policy was abolished in 1998, creating a market-based system for property transactions. Individuals were subsequently encouraged to purchase their own properties with mortgage financing, hence bolstering the growth of the property market. At the same time, the PRC government implements policies affecting the development of the real estate market, such as those relating to land supply, land grant process, building code, mortgage interest rate, down payment rate, etc. Therefore, government regulations and policies play an important role in the PRC’s property market. For a discussion of key real estate reforms and changes in PRC government policies, see “Regulation.” A brief timeline of key property reforms and government regulations and policies is set out below.

- 1988 The PRC government amended the national constitution to permit the transfer of state-owned land use rights.
- 1994 The PRC government further implemented property reform and established an employer/employee-funded housing fund.
- 1995 The PRC government issued regulations regarding the sales and presales of property, establishing a regulatory framework for property sales.
- 1998 The PRC government abolished its state-allocated housing policy.
- 1999 The PRC government extended the maximum mortgage term to 30 years. The PRC government increased the maximum mortgage financing from 70% to 80%. The PRC government formalized procedures for the sale of property in the secondary market.
- 2000 The PRC government issued regulations to standardize the quality of construction projects, establishing a framework for administering construction quality.
- 2001 The PRC government issued regulations relating to the sales of commodity properties.
- 2002 The PRC government promulgated the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-For-Sale. The PRC government eliminated the dual system for domestic and overseas property buyers in China.
- 2003 The PRC government promulgated rules for more stringent administration of property loans with a view to reducing the credit and systemic risks associated with such loans. The State Council issued a notice for sustainable and healthy development of the property market.

2004	The State Council issued a notice requiring that, with respect to property development projects (excluding ordinary standard residential houses), the proportion of capital funds should be increased from 20% to 35%. The Ministry of Construction (“MOC”), renamed as the Ministry of Housing and Urban-Rural Development (“MOHURD”) in 2008, amended Administrative Measures on the Presale of Commercial Housing in Cities. CBRC issued the Guideline for Commercial Banks on Risks of Real Estate Loans to further strengthen the risk management of commercial banks on property loans.
2005	The PRC government instituted additional measures to discourage speculation in certain regional markets including increasing the minimum required down payment to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% for sales within two years of purchase, and prohibiting reselling unfinished properties before they are completed.
2006 to mid-2008	<p>The PRC government implemented additional land supply, bank financing, foreign investment and other measures to curtail rapid increases in property prices, to encourage the development of middle- to low-end housing and to promote healthy development of the PRC property industry.</p> <p>To further curtail speculation over development and rapid increases in property prices, the PRC government issued regulations to urge the full and effective use of existing construction land and the preservation of farming land and rules to control financial institutions’ property financings. Starting from June 1, 2006, transfer of residential properties by individuals within five years of purchase is subject to business tax based on the sales income.</p>
Mid-2008 to third quarter of 2009	The PRC government implemented a number of measures to combat the global economic slowdown. These measures include the lowering of the PBOC benchmark bank lending rates, the internal capital ratio for property projects and the downpayment requirements for purchasing ordinary residential properties. From January 1, 2009 to December 31, 2009, transfer of non-ordinary residential properties by individuals within two years of purchase is subject to business tax based on the sales income, while the business tax levied on the transfer of ordinary residential properties by individuals within two years of purchase is based on the difference between the sales income and the purchase price.
Fourth quarter of 2009	The PRC government adjusted some of its policies in order to enhance regulation in the property market, to restrain property purchases for investment or speculation purposes and to keep property prices from rising too quickly in certain cities, including abolishing certain preferential treatment relating to business tax payable upon transfers of residential properties.
2010	The PRC government issued a number of measures and policies to curtail the overheating of the property market. These measures and policies include increasing the down payment and the loan interest rates for properties purchased with mortgage loans, imposing more stringent requirements on the payment of land premiums, suspending grants of mortgage loans to nonresidents who cannot provide any proof of local tax or social insurance payment for more than one year, abolishing certain preferential tax treatment and limiting the number of residential properties one household can purchase in certain areas. The PRC government also clarified certain issues with respect to the calculation, settlement and collection of LAT in order to enforce the settlement and collection of LAT, and the criteria for commercial banks to identify the second housing unit when approving mortgage loans. Effective January 1, 2010, the tax regulations provide as follows: 1) if the transfer occurs within five years of purchase, transfer of non-ordinary residential properties is subject to business tax based on the sales proceeds, while transfer of ordinary residential properties is subject to business tax based on the difference between the original purchase price and the sales proceeds; and 2) if the transfer occurs after five years of purchase, transfer of non-ordinary residential properties is subject to business tax based on the difference between the original purchase price and the sales proceeds, while transfer of ordinary residential properties is exempted from business tax.

January 1, 2011 to Present The PRC government issued the notices to further regulate the property market, including raising minimum down payment for second house purchasers, abolishing the business tax preferential treatment on transfer of ordinary residential properties within five years, imposing more stringent fines on idle land and further limiting the number of residential properties one household can purchase. New regulations were issued to further enhance the regulation and control of real estate market through measures such as adjusting business tax policy on transfer of housing and tightening the review of entry qualification and source of funding for enterprises in the land market. Effective January 27, 2011, transfer of ordinary residential properties within five years of purchase is subject to business tax based on the sales proceeds. In addition, on January 28, 2011, Shanghai and Chongqing commenced trials in levying property tax. As of November 1, 2011, 47 cities, including Beijing, Shanghai, Guangzhou, Tianjin, Nanjing, Chengdu, Wuxi, Qingdao, Hangzhou, Xi'an, Changzhou, Shenyang and Dalian, have promulgated local measures to restrict housing purchases, as a step to implement the Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market issued on January 26, 2011.

KEY REAL ESTATE MARKETS

We are focused on primarily the Beijing and Shanghai commercial property sector, which we believe are the most developed and profitable commercial property markets in China.

Office Property Market in China

Total foreign investments in China increased from US\$74.8 billion in 2007 to US\$116.0 billion in 2011. Many multi-national corporations have set up their regional headquarters in order to better access local markets and establish a foothold in China. The economic growth has been accompanied by a general shifting of economic activities from industrial production to more service-based activities, such as research and development, product design, market research and branding and advertising. The tertiary industry is becoming a more important component of the overall economy, growing from RMB734 billion in 1991 to RMB20,326 billion in 2011 and its share of the entire GDP rose from 33.7% to 43.1%. The employed population in the tertiary sector in China increased from 124.6 million in 1991 to 272.8 million in 2011 and its share of the entire workforce rose from 18.9% to 35.7%, respectively. The growth in the tertiary sector will generate more demand for office properties to house the enlarging workforce in this sector. According to Savills, in the first half of 2012, investments in office properties has grown by 32% year-on-year while office property sales were up by 7% year-on-year.

The solid demand for office space resulted in a decrease in vacancy rates and an increase in rents in Beijing and Shanghai. Both cities Grade A office markets have higher rents and lower vacancies than other major cities in China. According to Savills, the Beijing Grade A office market continued to experience under-supply and the city-wide vacancy rate dropped to 3.4% in the second quarter of 2012. The Beijing Grade A office rents increased by 9.7% in the first half of 2012 to an average of RMB305 per sq.m. per month. Shanghai's Grade A office rents also increased by 5.9% in the first half of 2012 to an average of RMB243 per sq.m. per month with vacancy rate dropped to 5.7%.

The table below sets forth selected average data relating to comparative rents in major cities in China for the second quarter in 2012 and market size as of June 30, 2012.

	<u>Beijing</u>	<u>Shanghai</u>	<u>Shenzhen</u>	<u>Guangzhou</u>	<u>Tianjin</u>	<u>Hangzhou</u>	<u>Chengdu</u>	<u>Chongqing</u>
Grade A office rents (RMB per sq.m per month)	305	243	190	151	140	136	128	92
Vacancy	3.4%	5.7%	12.8%	10.8%	21.1%	28.5%	24.7%	24.9%
Market size (million sq.m)	9.1	5.3	2.6	2.8	1.0	1.8	1.1	NA

Source: Savills Second Quarter 2012 Market Update Report and Office Sector reports

According to Savills, Beijing office market is expected to see little new supply in the next two years, while the Shanghai office market is supported by strong end-user demand and healthy pre-commitment.

Retail Property Market in China

Retail sales in China have experienced strong growth and grew by 17.1% in 2011.

The rapid urbanization and growth of disposable income in China have benefited the retail sector, which has experienced strong growth in recent years. According to the government’s 12th Five Year Plan, China’s retail sales are projected to grow steadily at approximately 15% per annum to reach RMB32 trillion by 2015, twice the 2010 total, driven substantially by the rapid increase of disposable incomes. As China’s population becomes more affluent, its retail habits are shifting from spending on necessities towards discretionary spending. The shift in consumption pattern is expected to continue as incomes increase. Demand for prime retail spaces is expected to remain firm on the back of China’s rapid urbanization and rising income levels of the middle and upper class.

Particularly, according to Savills, reinforcement of Beijing and Shanghai by retailers as “branding” locations continued to support prime rental growth in these two cities.

Beijing Overview

Beijing is China’s capital and covers an area of approximately 16,808 square kilometers and had a total permanent population of approximately 19.6 million at the end of 2010.

Beijing’s economy has developed significantly over the years, primarily due to robust growth of the national economy as well as the increasing inflow of foreign direct investment. From 2007 to 2011, Beijing’s nominal GDP grew from RMB985 billion to RMB1,625 billion, representing a CAGR of approximately 13.3% over the same period. Per capita GDP also increased significantly from RMB61,274 in 2007 to RMB81,658 in 2011. Average annual disposable incomes per capita of urban households increased at a CAGR of 10.6% between 2007 and 2011, rising from RMB21,989 per capita to RMB32,903 per capita. Since August 2008, Beijing has further enhanced its international profile with the successful hosting of the Olympic Games as well as an improved environment and transportation system, which is anticipated to further attract investment and new demand for properties in the city.

The table below sets forth selected data relating to economic development in Beijing for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Nominal GDP (RMB billion)	985	1,112	1,215	1,411	1,625
Per capita GDP (RMB)	61,274	66,797	70,452	75,943	81,658
GDP growth rate (%)	14.5	9.1	10.2	10.3	8.1
Fixed asset investment (RMB billion)	391	381	462	540	558
Per capita disposable income of urban households (RMB)	21,989	24,725	26,738	29,073	32,903
Per capita consumption expenditure of urban households (RMB)	16,317	16,460	17,893	19,934	21,984

Sources: CEIC, CREIS

Beijing Property Market

Despite the series of austerity measures implemented by the PRC government to cool the real estate market in recent years, Beijing's property market has continued to attract investment. Investment in real estate development increased by a CAGR of 11.1% from 2007 to 2011. The city's average selling price of office properties also increased, from RMB15,152 per sq.m. in 2007 to RMB23,695 per sq.m. in 2011, representing a CAGR of 11.8%.

The table below sets forth selected data relating to real estate development in Beijing for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real estate investment (RMB billion)	200	191	234	290	304
Total GFA completed (million sq.m.)	28.9	25.6	26.8	23.9	22.5
Total GFA of commodity properties sold (million sq.m.)	21.8	13.4	23.6	16.4	14.4
Average price of office properties (RMB per sq.m.)	15,152	16,554	16,857	23,413	23,695
Average price of commodity properties (RMB per sq.m.)	11,553	12,418	13,799	17,782	16,852
Sales revenue of commodity properties (RMB billion)	251.5	165.8	326.0	291.5	242.5

Sources: CEIC, CREIS

Shanghai Overview

Shanghai has long been established as one of the most important financial and trading centers of the PRC and the location of choice for a vast number of multinational corporations seeking to establish headquarters in China. The municipality covers an area of approximately 6,341 square kilometers and had a total permanent population of approximately 23.4 million at the end of 2011.

The Shanghai economy has been growing rapidly since the 1990s. Shanghai's GDP increased from RMB1,249 billion in 2007 to RMB1,920 billion in 2011, representing a CAGR of approximately 11.3%. Per capita GDP grew from RMB62,041 in 2007 to RMB82,560 in 2011, representing a CAGR of 7.4% over the same period. Average annual disposable incomes per capita of urban households increased at a CAGR of 11.3% between 2007 and 2011, rising from RMB23,623 per capita to RMB36,230 per capita. As the host of the World Expo in 2010, Shanghai is expected to continue to benefit from foreign investment, further strengthening its position as the leading economic and financial center of the nation.

The table below sets forth selected data relating to economic development in Shanghai for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Nominal GDP (RMB billion)	1,249	1,407	1,505	1,717	1,920
Per capita GDP (RMB)	62,041	66,932	69,164	76,074	82,560
GDP growth rate (%)	15.2	9.7	8.2	10.3	8.2
Fixed asset investment (RMB billion)	442	482	504	511	496
Per capita disposable income of urban households (RMB)	23,623	26,675	28,838	31,838	36,230
Per capita consumption expenditure of urban households (RMB).	17,255	19,398	20,992	23,200	25,102

Sources: CEIC, CREIS

Shanghai Property Market

Shanghai World Expo 2010 was a positive catalyst for the Shanghai property market due to related infrastructure improvements and revitalization of the Expo venue. Investment in real estate development increased by a CAGR of 13.5% from 2007 to 2011. The City's average selling price of office properties increased from RMB14,223 per sq.m. in 2007 to RMB25,224 per sq.m. in 2011, representing a CAGR of 15.4%.

The table below sets forth selected data relating to real estate development in Shanghai for years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real estate investment (RMB billion)	131	137	146	198	217
Total GFA completed (million sq.m.)	33.8	24.8	21.0	19.4	23.8
Total GFA of commodity properties sold (million sq.m.)	36.9	23.0	33.7	20.6	17.9
Average price of office properties (RMB per sq.m.)	14,223	11,783	21,598	18,888	25,224
Average Price of commodity properties (RMB per sq.m.)	8,361	8,195	12,840	14,464	14,603
Sales revenue of commodity properties (RMB billion)	308.9	189.5	433.0	298.1	261.5

Sources: CEIC, CREIS

Hainan Province Overview

Hainan is an island located off the southern coast of China, one of the special economic zones laid out by Deng Xiaoping. As of December 31, 2011, Hainan had a permanent resident population of approximately 8.8 million. The province experienced a high GDP growth rate from 2007 to 2011. In 2011, Hainan's GDP reached approximately RMB252 billion, representing a per capita GDP of approximately RMB28,898.

The table below sets forth selected data relating to economic development in Hainan for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Nominal GDP (RMB billion).	125	150	165	206	252
Per capita GDP (RMB)	14,923	17,691	19,254	23,831	28,898
GDP growth rate (%)	15.8	10.3	11.7	16.0	12.0
Fixed asset investment (RMB billion)	50	71	99	132	166
Per capita disposable income of urban households (RMB).	10,997	12,608	13,751	15,581	18,369
Per capita consumption expenditure of urban households (RMB).	8,293	9,408	10,087	10,927	12,643

Source: CEIC, CREIS

Hainan Property Market

Real estate investments in Hainan Province reached approximately RMB66 billion in 2011, representing a CAGR of 51.2% from 2007 to 2011. A total GFA of approximately 4.5 million sq.m. of commodity properties was completed in Hainan in 2010, and approximately 8.5 million sq.m. of commodity properties were sold in the same year. The average selling price per sq.m. of commodity properties in Hainan in 2011 was approximately RMB8,943.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real estate investment (RMB billion)	13	19	29	47	66
Total GFA completed (million sq.m.)	2.3	3.1	4.3	6.1	4.5
Total GFA of commodity properties sold (million sq.m.)	3.1	3.7	5.6	8.5	8.7
Average Price of commodity properties (RMB per sq.m.)	4,162	5,443	6,261	8,735	8,943
Sales revenue of commodity properties (RMB billion)	13.0	20.3	35.1	74.7	77.4

Source: CEIC, CREIS

REGULATION

This Appendix sets out summaries of certain aspects of PRC law and regulations, which are relevant to our operations and business. These include laws relating to land, real estate development, foreign investment enterprises and foreign exchange control. For a description of the legal risks relating to government regulation of our business, and in particular the land system in China, see “Risk Factors”.

THE LAND SYSTEM OF THE PRC

Overview

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 the suburban areas and all farm land are, 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 (and compensation must be paid by the State).

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 (the “NPC”) passed an amendment to the constitution of the PRC. The amendment, which allowed for the transfer of land use rights for value, paved the way for reforms of the legal regime governing the use of land and transfer of land use rights. In December 1988, the Standing Committee of the NPC also amended the Land Administration Law of the PRC (中華人民共和國土地管理法) to permit the transfer of land use rights for value.

In May 1990, the State Council enacted the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例). These regulations, generally referred to as the Urban Land Regulations, formalised 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 state and local governments at or above the county 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, cultural, public health and sports	50
Comprehensive utilisation or others	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 shall be paid by the State, on the basis of the number of years in which the land user has used the land and the state of affairs with respect to the development and utilisation of the land. 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.

In addition to the general framework for transactions relating to land use rights set out in the Urban Land Regulations, local legislation may provide for additional requirements, including those applicable to specific transactions within specific areas relating to the grant and transfer of 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

Pursuant to PRC laws or the stipulations of the State Council, except for land use rights which may be obtained through allocation (劃撥), land use rights for property development is obtained through governmental grant. There are two methods by which land use rights may be granted, namely by private agreement or competitive processes (i.e., tender, auction or listing at a land exchange administered by the local government).

As of July 1, 2002, the grant of land use rights by way of competitive processes is governed by the Regulations on the Grant of State-owned Land Use Rights by Invitation of Bids, Auction or Listing on a Land Exchange (招標拍賣掛牌出讓國有土地使用權規定), or the 2002 Regulations, issued by the Ministry of Land and Resources of the PRC, or the Ministry of Land and Resources, in May 2002. The 2002 Regulations were amended in 2007. On September 28, 2007, the Ministry of Land and Resources promulgated the Regulation on Bidding, Auction and Listing Required for Granting of State-Owned Construction Land (招標拍賣掛牌出讓國有建設用地使用權規定), or the 2007 Regulations, which became effective on November 1, 2007. The 2007 Regulations specifically provide that land to be used for industry, commerce, tourism, entertainment and commodity housing development must be granted by way of competitive processes. A number of measures are

provided by the 2007 Regulations to ensure such grant of 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 county government. In addition, the announcement of tender, auction or listing must be made 20 days prior to the date on which such competitive process begins. Further, it is also stipulated that for listing at a land exchange, the time period for accepting bids must be no less than 10 days.

The local land bureau granting the land use rights should examine the qualifications of the intended bidders and inform those qualified to participate in the bidding processes by sending out invitations to tender. Bidders are asked to submit sealed bids together with the payment of a security deposit. When 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 expert), formed by the land bureau is responsible for opening the bids and deciding on the successful bidder. 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. 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 land use rights certificate and the land bureau effecting registration of the successful bidder as the holder of land use rights for the land. See the section entitled “Documents of title and registration of property interests”.

Where land use rights are granted by way of auction, a public auction will be held by the relevant local land bureau. 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. Tenders for land use rights can be by way of open tenders or private tenders.

Where 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, status, period of land use right and purpose of use of land and the initial bidding price, period for receiving bids and terms and conditions upon which the land use rights are proposed to be granted. The 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.

In June 2003, the Ministry of Land and Resources promulgated the Regulations on Grant of State-owned Land Use Rights by Agreement (協議出讓國有土地使用權規定) or the 2003 Regulations, to regulate granting of land use rights by agreement in respect of land, other than those shall be granted by open bid, auction, and listing as mentioned above. According to the 2003 Regulations, the local land bureau, together with other relevant government departments, including the city planning authority, will formulate the plan concerning the grant, including the specific location, boundary, purpose of use, area, term of grant, conditions of use, conditions for planning and design as well as the proposed land premium, which shall not be lower than the minimum price regulated by the State, and submit such plan to the relevant government for approval. Afterwards, the local land bureau and the relevant party will negotiate and enter into the land grant contract based on the abovementioned plan. If two or more parties are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or listing on a land exchange in accordance with the 2007 Regulations.

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 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 shall be paid.

According to the “Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction (關於加強城市建設用地審查報批工作有關問題的通知)” enacted by the Ministry of Land and Resources on September 4, 2003 (the “Notice”), commencing from the day of distribution of the Notice, land use for luxurious commodity houses shall be stringently controlled, and applications for land use for building villas shall be stopped. On May 30, 2006, the Ministry of Land and Resources issued the “Urgent Notice of Further Strengthening the Administration of the Land” (關於當前進一步從嚴土地管理的緊急通知). It is expressly prescribed in this Notice that land for property development must be assigned by way of competitive bidding, public auction or Listing-for-sale; the rules of stopping the development project for villas should be strictly enforced; and all supply of land for such purpose and handling of related land use procedure will be ceased from the day of the Notice’s issuance.

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

The 2007 Regulations specify that the grantee of State-owned construction land use rights shall fully pay up the premium for the Grant of State-owned Land Use Right in accordance with the State-owned land granting contract before it could proceed with the relevant procedures for Grant of State-owned Land Use Right registration and apply for a State-owned Construction Land Use Rights Certificate. No grantee could be granted a State-owned Construction Land Use Rights Certificate for the land in proportion to the partial payment of the premium that the grantee has paid.

On December 30, 2007, the Notice of the General Office of the State Council on Strictly Enforcement of Regulations and Policies Regarding to Rural Collective Construction Land (國務院辦公廳關於嚴格執行有關農村集體建設用地法律和政策的通告) was issued to introduce a series of measures for strictly strengthening administration and management of rural collective construction land. The State Council issued the Circular on Saving Intensive-use Land (國務院關於促進節約集約用地的通知) on land conservation and improving the efficiency of land use on January 3, 2008, in order to better protect arable land. The circular called on relevant government agencies to map out large-scale “scientific infrastructure” programs, tighten land use approval in both rural and urban areas and step up land market monitoring. The circular prescribed that, if land approved for development remains unused for more than two years, it should be recovered by the government according to laws and regulations. If the land remains idle for more than one year and less than two years, land developers should pay a 20 percent non-usage fee. More than 70 percent of the land used for construction of urban housing should be designated for residential purposes for low-rent units, affordable housing, price-limited housing and smaller units of less than 90 square meters. The circular also stipulates that lending and financing services will not be provided for illegally used land. Moreover, financial institutions should be very prudent when they provide loans and/or when they examine financing for real estate projects that exceed one year from the start date listed in the land use right granting contract, for which less than 1/3 of the development area has been completed, or for which less than 1/4 of the investment has been made.

Model Land Grant Contract

To standardise land grant contracts, in 2000, 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 specific local circumstances. The model land grant contract contains terms such as location of land, area 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.

If a land user wishes to change the specified use of land after the execution of a land grant contract, approvals must first be obtained from the relevant land bureau and the relevant urban planning department, and a new land grant contract may have to be signed and the land grant fee may have to be adjusted to reflect the added value of the new use. Registration procedures must be carried out immediately after approval of the change of designated use.

If the land user fails to develop and invest in the land within the period of time specified in the land grant contract for more than one year, the land bureau has the right to impose various penalties ranging from idle fees to withdrawal of the grant without consideration (unless the failure to develop and invest in the land is due to a force majeure event or the activities of a governmental authority).

Termination

Pursuant to the “Property Law of the People’s Republic of China” (中華人民共和國物權法) promulgated on March 16, 2007 and enforced on October 1, 2007, when the term of the right to use land for construction of dwelling houses expires, it shall be renewed automatically. As regards the term of the right to use land not for construction of dwelling houses shall be handled in accordance with laws.

The state generally will not withdraw a land use right before the expiration of its term of grant and if it does so for special reasons, such as in the public interest, it shall offer proper compensation to the houses and other realties on such land, and corresponding land grant fees shall be returned back, having regard to the surrounding circumstances and the period for which the land use right has been enjoyed by the land user.

Upon expiry of the land not for dwelling houses, the land use right 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 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 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 land grant.

Land Transfers from Current Land Users

In addition to a direct grant from the government, an investor may also acquire land use rights from land users that have already obtained the land use rights by entering into an assignment contract or a joint venture development agreement with the land user.

The assignment contract or joint venture development agreement must be registered with the relevant local land bureau at the municipal or county level. Upon a transfer of land use rights, all rights and obligations contained in the land grant contract are deemed incorporated as part of the terms and conditions of such transfer.

The assignment contract or the joint venture development agreement is subject to terms and conditions specified in the land grant contract. According to Urban Real Estate Administration Law of the PRC (中國人民共和國城市房地產管理法), for building construction projects, it is required that at least 25% of total construction costs, excluding land grant fees, be expended the current holder has obtained land use right certificate before assignment can take place. A higher minimum construction and investment fee may be provided in land grant contracts entered into between the local land administration bureau and the land user. All rights and obligations of the current holder under a land grant contract will be transferred contemporaneously to the assignee of the land use rights. The relevant local government has the right to acquire the land use rights to be assigned if the assignment price is significantly lower than the market price. Relevant local governments may also acquire the land use rights from a land user in the event of a change in town planning. The land user will then be compensated for the loss of his land use rights.

Documents of Title and Registration of Property Interests

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 in the land use rights certificate. 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 land use right who is issued a building ownership certificate holds the 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 all their lawful state-owned land use rights, as well as ownership rights to the buildings. In this regard, real estate registries have been established in all cities in China. In most cities, there are separate registries for land use rights and building ownership. However, in Shanghai and some other major cities, the two registries have been or are in the process of being combined. For instance, in Beijing the two registries at the county level are combined, but it is still required, at the municipal level, that the land use rights and the ownership of the buildings shall still bear separately registered. In places where there are separate registries, the holder of a land use right will be issued a building ownership certificate for its ownership of the building and a land use rights certificate for the underlying land. In the other places where registries are combined, such as in Shanghai, the land use rights certificate and the building ownership certificate are combined into a single certificate. Under PRC law, land use rights and building ownership rights which are duly registered are protected by law.

Whether the registered land user can assign, mortgage or lease the land use rights will be subject to conditions stipulated in the original land grant contract. In addition to the requirement to register land use rights, there is also a requirement to register a mortgage of a land use right in local land registration departments. See the section entitled “Mortgage and guarantee”.

Mortgage and Guarantee

The mortgage of real estate in the PRC is governed by the Property Law (中華人民共和國物權法), the Guaranty Law of the PRC (中華人民共和國擔保法), or the Security Law, the Law of the PRC on the Administration of Urban Real Estate (中華人民共和國城市房地產管理法), or the Real Estate Law, the Regulation on Administration Mortgages of Urban Real Estate (城市房地產抵押管理辦法), or the Real Estate Mortgage Regulation, and other relevant real estate related laws and regulations. When a mortgage is created over the ownership of a completed building, the same will be simultaneously created over the land use right of the land where the building is erected. The mortgagee and the mortgagor shall enter into a mortgage contract in writing, which becomes effective on the date of the registration of such mortgage by the relevant real estate authority. Pursuant to the Guaranty Law, a real estate mortgage agreement must contain specific provisions including (i) the type and amount of the indebtedness secured, (ii) the period of the obligation by the debtor, (iii) the name, quantity, conditions, location, valuation and ownership or use right of the mortgaged property, (iv) the scope of the mortgaged, (v) others. Pursuant to the Real Estate Law, 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.

Pursuant to the Property Law, a real estate mortgage becomes effective on the date of registration with the local real estate department. When carrying out mortgaged property registration, the loan contract and the mortgage contract as well as the land use rights certificate or the building ownership certificate in respect of the mortgaged property must be submitted to the registration authority. If the mortgagor cannot repay the loan that is secured by the mortgaged property, the mortgagee may agree with the mortgagor to receive payment by evaluating the mortgaged property in terms of money or through the proceeds of the auction or selling off the property. If no such agreement is reached, the mortgagee may institute proceedings in a People's Court. After the mortgaged property has been evaluated in terms of money or been auctioned or sold off, any portion of the proceeds that exceeds the amount of the indebtedness shall belong to the mortgagor and any shortfall shall be paid by the mortgagor.

The Guaranty Law also contains comprehensive provisions dealing with guarantees. Under the Security Law, guarantees may be in two forms: (i) general guarantees whereby the guarantor bears the liability when the debtor fails to perform the payment obligation; and (ii) 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.

The Guaranty Law further provides that 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.

The property Law provides that the mortgage registration of buildings and other objects fixed to land, the right to use construction land, and a building under construction shall be gone through, such mortgage right shall be established as of the date of registration. The buildings newly constructed on the land after the mortgage of the right to use construction land may not belong to the mortgaged properties. Such newly constructed buildings can be disposed of together with the disposal of the aforesaid right to use construction land so as to realize the mortgage right, however, the mortgagee has no right to seek preferred payments from the money generated from the disposal of these newly constructed buildings.

The Ministry of Land and Resources (MLR), on December 30, 2007, issued the Administrative Measures on Land Registration (土地登記辦法). The measures took effect on February 1, 2008. According to the measures, land registration refers to the recording of land-use rights on land registered for public review. The measures stipulate that the administrative department of land and resources must conclude land registrations within 20 days after receiving an application. If the case is complex, a 10-day extension can be approved by the principal of land and resources' administrative department.

On April 8, 2008, the MLR released the Circular on Implementing the Land Registration Measures and Further Strengthening Land Registration Work (關於貫徹實施〈土地登記辦法〉進一步加強土地登記工作的通知) (the "Circular"), which calls for stringent land registration according to laws, cessation of illegal registration, and prohibition of legalizing illegal land through land registration. The Circular points out that the registrations will not be granted to cases involving unresolved land disputes, as well as cases where the full contract price has not been paid or where the use of land has been changed illegally. In addition, the Circular stipulates that personnel without a Land Registration Qualification Certificate must not be engaged in land ownership investigation and examination. Any person responsible for incorrect registration or incomplete registrations must bear the consequences.

On February 15, 2008, the Ministry of Construction (MOC) released Procedures for Property Registration (房屋登記辦法) (the “Procedures”). The Procedures took effect on July 1, 2008. Measures on Administration of Urban Houses Registration and Decisions by the MOC to Revise Measures on Administration of Urban Houses Registration was revoked on that day. The Procedures stipulate that in property registrations, the owners of the housing property rights should correspond with the owners of the land use rights. Based on Property Law, the Procedures specifically regulate the pre-registration, registration of mortgage rights for construction work in process, registration for maximum mortgage amount, registration of rectification, registration for objection and registration for easement, which make property registrations more operable.

The Property Law applies to both realties and chattels and regulates the civil relationships generated from the attribution and utilization of the realties and chattels. There are five parts and 247 clauses in the Property Law, which makes a series of detailed rules regarding the following kinds of important property rights:

- the right of ownership, which refers to the right to possess, use, seek profits from, and dispose of the realty or chattel owned by the owner according to the laws;
- the right of usufruct, which refers to the right to possess, use, and seek proceeds from the realty or chattel owned by someone else to the extent prescribed by the laws; and
- security rights, which refers to the right of priority to be repaid with respect to the secured property in accordance with laws when the debtor fails to perform its outstanding debt or under the circumstances of realization of security rights as agreed by parties concerned.

A summary of the important legislation innovations in the Property Law is set forth below:

- The Property Law makes the principle that the rights of the state, companies, social organizations, individual, or any other property right holders shall be equal under the protection of law. In particular, the Property Law emphasizes that the legal properties of private individuals shall be protected by laws and any entity or individual shall be prohibited from encroachment, cheating, dividing privately, intercepting or destroying such properties.
- Article 149 of the Property Law clearly states that “the term of the residential construction land use rights shall be renewed automatically upon its expiration.” The “automatic renewal” requirement in the Property Law embodies the principle that the state will protect the citizen’s legal private property. However, it shall be noted that it is still not very clear from the Property Law regarding the renewal of the non-residential construction land use rights. The Property Law only regulates that “the renewal upon the expiration of the term for non-residential construction land use rights shall be handled in accordance with laws.”
- There are various clauses in the Property Law to strengthen the protection on the rights of the house owners: (i) Article 89 of the Property Law requests that “the construction of a building shall not violate the relevant provisions of the State on project construction, nor obstruct the air circulation, sunlight or daylight of any neighboring building.” This clause protects house owners’ right to enjoy sunlight and prevents house developers from illegal constructions; (ii) Article 81 of the Property Law grants house owners the right to manage by themselves the building and its ancillary facilities (and replace the property management company or any other manager engaged by the house developer. This clause reinforces the independent rights of house owners to manage their own community.

- The Property Law enlarges the scope of the allowable mortgaged properties and pledged rights. All properties which are not forbidden to be mortgaged as prescribed by the laws and administrative regulations are allowed to be mortgaged. In particular, the properties which are permitted to be mortgaged include but are not limited to the following:
 - Any building and other land appurtenances.
 - Any construction land use right.
 - The right to contracted management of barren land and other lands as obtained by means of bid invitation, auction, public consultation, etc.
 - Any manufacturing equipment, raw materials, semi-finished products and products.
 - Any building, vessel or aircraft under construction.
 - Any tools of transportations.

Idle Land

According to the “Measures on the Disposal of Idle Land (閒置土地處置辦法)” enacted and enforced by the Ministry of Land and Resources on April 28, 1999 as amended on June 1, 2012, and enforced on July 1, 2012, the land can be defined as idle land under any of the following circumstances: the development of and construction on the land have not begun after a period of one year from the construction date stipulated in the “Contract on Lease of the Right to Use State-Owned Land”, or in the “Approval Letter on Land Allocation”; or the development of and construction on the land has begun, but the area under construction is less than one third of the total area to be developed or the invested amount is less than 25% of the total amount of investment; and the development and construction have been continuously suspended for more than one year.

The municipality or county-level land administrative department shall, after a piece of land which has been ascertained as idle land, notify the concerned land user and draft a proposal on methods of disposal of the idle land including but not limited to extending the time period for development and construction (provided that the extension shall be no longer than one year), changing the use of the land, arranging for temporary use, recovering the land use right under an agreement with the developer, bartering, and other measures proposed and implemented by municipality or county-level administrative authority based on the particular situation. As to which option should be adopted under such circumstance, it is provided that this should be subject to negotiation between the authority and the developer. The administrative department of land under the people’s government of city or county level shall, after the proposal on disposal has been approved by the same level people’s government, arrange for implementation of the proposal. If the work has not been commenced after one year from the prescribed date of commencement, a surcharge on idle land equivalent to less than 20% of the assignment price may be levied; if the work has not been commenced after two years from the prescribed date of commencement, the land can be confiscated without any compensation. However, the preceding stipulations shall not apply if the delay is caused by force majeure; acts of government or acts of other relevant departments under the government; or by the indispensable preliminary work.

On September 8, 2007, the Ministry of Land and Resources promulgated the Notice on Strengthening the Disposal of Idle Land (關於加大閒置土地處置力度的通知) providing that the land subject to transfer shall be made ready for development before its transfer. The notice also prescribes that the State-owned land use rights certificate shall not be issued before the land grant premium has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

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 land use rights of the developed area or construct buildings on the land itself and sell or lease the buildings erected on it.

Under the “Regulations on Administration of Development and Operations of Urban Real Estate (城市房地產開發經營管理條例) (the “Development Regulations”) promulgated by the State Council in July 1998, an enterprise which is to engage in development of real estate shall satisfy certain requirements including (i) its registered capital shall be more than RMB1 million; and (ii) it has four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom shall hold the relevant qualification certificate.

Under the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) promulgated by MOFCOM and NDRC in November 2004, effective as of January 1, 2005, foreign investment in the development and construction of ordinary residential units is encouraged, whereas, foreign investment in the development of a whole land lot which shall be operated only by a Sino-foreign equity joint venture or a Sino-foreign co-operative joint venture, and the construction and operation of high-end hotels, villas, premium office buildings, international conference centers and large theme parks are subject to restrictions, foreign investment in other property development is permitted. On October 31, 2007, MOFCOM and NDRC jointly issued the new Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) (2007年修訂), effective as of December 1, 2007, foreign investment in the development and construction of ordinary units falls in the permitted category, whereas, foreign investment in secondary market transactions in the real estate sector and the businesses of real estate intermediaries or agents is subject to restrictions. A foreign investor intending to engage in the development and sale of real estate may establish a joint venture, cooperative venture or wholly-owned enterprise by the foreign investor in accordance with the laws and administrative regulations regarding foreign-invested enterprise. Prior to its registration, the enterprise must be approved by the relevant commerce authorities, upon which an Approval Certificate for a Foreign-Invested Enterprise will be issued. On December 24, 2011, NDRC and MOFCOM jointly issued the new Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄 (2011年修訂)), which will be effective as of January 30, 2012 and pursuant to which foreign investment in the construction and operation of villas is removed from the restriction category to the prohibited category.

In July 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE promulgated the Opinion on Standardizing the Admittance and Administration of Foreign Capital In the Real Estate Market (關於規範房地產市場外資准入和管理的意見). Under such opinion, when a foreign investor establishes a property development enterprise in China where the total investment amount is US\$10 million or more, such enterprise’s registered capital must not be less than 50 percent of its total investment amount. Foreign institutions which have no branches or representative offices in the PRC or foreign individuals who work or study in the PRC for less than one year, are prohibited from purchasing any real property in the PRC. Furthermore, the admittance and administration of foreign capital in the property market must comply with the following requirements:

- foreign institutions or individuals who buy property not for their own use in China should follow the principle of Commerce Existence and apply for the establishment of a foreign-invested enterprise, pursuant to the regulations of foreign investment in property. After obtaining approval from the relevant authorities and upon completion of the relevant registrations, foreign institutions and individuals can then carry on their business pursuant to their approved business scope;

- where the total investment amount of a foreign-invested property enterprise is US\$10 million or more, its registered capital shall be no less than 50 percent of the total investment amount; where the total investment amount is less than US\$10 million, its registered capital shall follow the requirements of the existing regulations;
- for establishment of a foreign-invested property enterprise, the commerce authorities and the administration for industry and commerce take charge of the approval and registration of the foreign-invested property enterprise and the issuance of the Approval Certificate for a Foreign-Invested Enterprise (which is only effective for one year) and the Business License. Upon full payment of the land premium, the foreign-invested property enterprise should apply for a “Certificate of Land Use Rights”. With a Certificate of Land Use Rights, it can obtain a formal Approval Certificate for a Foreign-Invested Enterprise from the commerce authorities, and an updated Business License which will have the same approved business period with the formal Approval Certificate for Foreign-Invested Enterprise from the administration of industry and commerce;
- transfers of projects or shares in foreign-invested property enterprises or acquisitions of domestic property enterprises by foreign investors should strictly follow the relevant laws, regulations and policies and obtain the relevant approvals. The investor should submit: (i) a written undertaking of fulfillment of the “Contract for the State-owned land use rights assignment”, the “Construction Land Planning Permit” and the “Construction Works Planning Permit”, (ii) a “Certificate of Land Use Rights”, (iii) documents evidencing the filing for modification with the construction authorities, and (iv) documents from the relevant tax authorities evidencing the payment of tax; and
- when acquiring domestic property enterprises by way of share transfer or otherwise, or purchasing shares from Chinese parties in Sino-foreign equity joint ventures, foreign investors should make proper arrangements for the employees, handle the debts of the banks and pay the transfer price in a lump sum and with its own capital. Foreign investors with bad records shall not be allowed to undertake the aforementioned activities in the PRC.

On August 14, 2006, the General Office of MOFCOM enacted the Notice on Relevant Issues Concerning the Carrying Out Circular on Standardizing the Admittance and Administration of Foreign Capital in the Property Market (商務部辦公廳關於貫徹落實《關於規範房地產市場外資准入和管理的意見》有關問題的通知). According to the Notice, if the total investment of a foreign-invested property development enterprise exceeds US\$3 million, the registered capital must not be less than 50% of the total estimated investment; if the total investment is less than or equal to US\$3 million, the registered capital must not be less than 70% of the total estimated investment. When a foreign investor merges with a domestic property development enterprise by transferring equity or other means, the original employees of the merged companies must be settled down properly, bank debts must be settled and the entire consideration for the transfer must be paid off at one time with its own capital within three months after the issue of the business license. When a foreign investor purchases the equity from other Chinese shareholders of a foreign-invested property development enterprise, the original employees of the merged companies must be settled down properly, bank debts must be settled and the entire consideration for the transfer must be paid off at one time with its own capital within three months after the effective date of the equity transfer agreement.

On May 23, 2007, MOFCOM and SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in the Real Estate Sector in the PRC (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), which stipulates the following requirements for the approval and supervision of foreign investment in real estate:

- foreign investment in the PRC real estate sector relating to high-grade properties should be strictly controlled;
- before obtaining approval for the setup of real estate entities with foreign investment, (i) both the land use rights certificates and housing ownership right certificates should be obtained or, (ii) contracts for obtaining land use rights or housing ownership rights should be entered into;
- entities which have been set up with foreign investment need to obtain approval prior to the expansion of their business operations into the real estate sector, and entities which have been set up for the purpose of real estate development operation need to obtain new approvals, in case they expand their real estate business operations;
- acquisitions of real estate entities and foreign investment in the real estate sector by way of round-trip investment should be strictly regulated. Foreign investors should not avoid approval procedures by changing actual controlling persons;
- parties to real estate entities with foreign investment should not in any way guarantee a fixed investment return;
- registration shall be immediately effected according to applicable laws with MOFCOM regarding the setup of real estate entities with foreign investment approved by local PRC governmental authorities;
- foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not effectuate foreign exchange settlements regarding capital account items to those who fail to file with MOFCOM or fail to pass the annual reviews; and
- for those real estate entities who are wrongfully approved by local authorities for their setups, (i) MOFCOM should carry out investigations and order punishment and corrections, and (ii) foreign exchange administrative authorities should not carry out foreign exchange registrations for them.

On July 10, 2007, the General Affairs Department of SAFE issued the Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment That Have Properly Registered with MOFCOM (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知). This new regulation restricts the ability of foreign-invested real estate companies to raise funds offshore for the purposes of injecting such funds into the companies by way of shareholder loans. The notice stipulates, among other things that:

- SAFE will no longer process foreign debt registration or applications for purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained authorization certificates from and registered with MOFCOM on or after June 1, 2007; and
- SAFE will no longer process foreign exchange registrations (or change of such registrations) or applications for the sale and purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained approval certificates from local government commerce departments on or after June 1, 2007 but who have not registered with MOFCOM.

On June 18, 2008, MOFCOM promulgated Notice on Record of Foreign-invested Real Estate Enterprises (商務部關於做好外商投資房地產業備案工作的通知). This new regulation aimed to strictly supervise record materials, simplify registration procedures, improve work efficiency, and further promotes the record registration. MOFCOM hereby notifies the relevant issues as follows:

- MOFCOM shall authorize the provincial counterparts of commerce to supervise the record materials on foreign-invested real estate enterprises. After approval on foreign-invested real estate enterprises (including but not limited to incorporation of enterprises, increase of the registered capitals, transfer of equity interests, merger and acquisition), the competent commercial department shall present the relevant materials, which should be submitted to MOFCOM for record, to the provincial counterparts of commerce for supervising;
- the provincial counterparts of commerce shall supervise the validity, authenticity and accuracy of the following materials pursuant to requirements as stated in the Circular On Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market (關於規範房地產市場外資准入和管理的意見) and the Notice On Further Strengthening and Regulating the Approval and Supervision On Foreign Investment in the Real Estate Sector in the PRC and the relevant provisions;
- the provincial counterparts of commerce shall cooperate with other relevant provincial departments to supervise relevant materials pursuant to the relevant laws and regulations, then send the fulfilled Filing Form on Foreign-invested Real Estate Enterprises with the Stamp of the General Office of provincial government and the provincial counterparts of commerce to MOFCOM for record files;
- MOFCOM shall cooperate with other relevant departments of the state council to supervise foreign-invested real estate enterprises (five to ten companies are selected at random quarterly). The provincial counterparts of commerce shall present materials of the selected companies to MOFCOM within five working days of the notice being issued; and
- provided that the selected companies fail to pass such supervision, MOFCOM shall notify SAFE to cancel their foreign exchange registration formalities and foreign investment statistics.

On June 10, 2010, MOFCOM issued the Notice Relating to Decentralizing the Examination and Approval Power for Foreign Investment (商務部關於下放外商投資審批權限有關問題的通知). It stipulates that for establishment of a FIE with total investment of not more than US\$300 million under the Encouraged and Permitted Category and US\$50 million under the Restricted Category as specified in the Foreign Industrial Guidance Catalogue, MOFCOM's branches at provincial level shall be in charge of examination and approval. While for establishment of a FIE with total investment of more than US\$300 million under the Encouraged and Permitted Category where there is no need of comprehensive balance review by the State, institutions for approval are at the local authority level.

On November 22, 2010, the General Office of MOFCOM issued the Notice on Strengthening Administration of Approval and Record of Foreign-invested Real Estate Industry (商務部辦公廳關於加強外商投資房地產業審批備案管理的通知) which aims to implement the relevant rules promulgated by State Council and to ensure the sound effect of control on the real estate industry. MOFCOM addresses the following issues in that notice:

- the local department of commerce shall strengthen the supervision on the property projects with an inflow of foreign exchange. When reviewing the record materials, the local department of commerce shall focus on the re-check on the integrity of the documents relating to the land, including the materials to prove the transfer of land use right, such as the land use right transfer contract, and the land use right certificate;

- the local department of commerce shall, together with the local relevant authorities, strengthen the supervision on cross-border investment and financing activities, prevention of the risks arising from real estate market and control on the speculative investments. The PRC property enterprises established with offshore capital shall not conduct interest arbitrage activities by purchase or sale of the real estate property which is under construction or completed; and
- the local department of commerce shall further strengthen the approval, supervision and statistics verification of the establishment and/or capital increase of real estate enterprises by way of merger and acquisition, investment by equity and so on.

Pursuant to the Urban Land Regulations, foreign entities may acquire land use rights in the PRC unless the law provides otherwise. However, in order to develop the acquired land, the foreign entities need to establish foreign investment enterprises in the PRC as the project companies to develop the property. These project companies may be in the form of Sino-foreign equity or cooperative joint ventures or wholly foreign-owned enterprises. The typical scope of business of such project company includes development, construction and sales and leasing commodity properties and ancillary facilities on the specific land as approved by the government and property management. The term of the property development company is usually the same as the term of grant of the 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 procedure. First, the PRC party to a joint venture project or the foreign investor, in the case of a wholly foreign-owned project, will submit a project application report 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. The National State Development and Reform Commission and the Ministry of Commerce have been given the authority to regularly promulgate guidelines for the direction of foreign investment.

Once the project application report has been verified and approved, the PRC party and the foreign investor may proceed to prepare a joint feasibility study report that reflects their assessment of the overall economic viability of the proposed project company. At the same time, the parties may proceed to negotiate and execute the joint venture contract and articles of association for the establishment of a project company. In the case of a wholly foreign-owned project, the foreign investor may then prepare and sign the articles of association. The joint feasibility study report, the joint venture contract and/or articles of association will then, depending, among other things, on the industry to which it belongs under the Catalogue and the amount of total investment, 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, it will issue an approval certificate for the establishment of the project company. With this approval certificate, the foreign investor and/or the PRC party can apply to the competent administration for industry and commerce for a foreign investment enterprise business licence for the project company.

Once a foreign entity developer has established a project company and secured the 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 a construction permit 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 “Provisions on Administration of Qualification Certificates of Real Estate Developers” (房地產開發企業資質管理規定) (the “Qualification Certificate Regulation”) implemented by the Ministry of Construction on March 29, 2000, a real estate developer shall apply for registration of its qualifications

according to such Regulation. An enterprise may not engage in development and sale of real estate without a qualification registration certificate for real estate development. The construction authority under the State Council oversees the qualifications of real estate developers throughout China, and the real estate development authority under a local government on or above the county level shall oversee the qualifications of local real estate developers.

In accordance with the Qualification Certificate Regulation, real estate developers are classified into four classes. The approval system is tiered, so that confirmation of class 1 qualifications shall be subject to preliminary examination by the construction authority under the people's government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2, 3 or 4 shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority.

Under the Qualification Certificate Regulation, the real estate development authorities shall examine applications for registration of qualifications of a real estate developer when it reports its establishment, by considering its assets, professional personnel and business results. A real estate developer shall only undertake real estate development projects in compliance with the approved qualification registration.

After a newly established real estate developer reports its establishment to the real estate development authority, the latter shall issue a provisional qualification certificate to the eligible developer within 30 days of its receipt of the above report. The real estate developer shall apply for a formal qualification certificate from the real estate development authority within one month before expiry of the provisional qualification certificate. Failure to obtain the required provisional or formal qualification certificate may result in a fine ranging from RMB50,000 to RMB100,000 and revocation of the developer's business licence if such failure to obtain a qualification certificate is not rectified.

A developer of any qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business which is limited to another classification. A class 1 real estate developer is not restricted as to the scale of real estate project to be developed and may undertake a real estate development project anywhere in the country. A real estate developer of class 2, 3 or 4 may undertake a project with a gross area of less than 250,000 sq.m. and the specific scope of business shall be as confirmed by the construction authority under the people's government of the relevant province, autonomous region or municipality.

The real estate development authorities perform annual inspections of qualified developers. Developers who fail to meet the qualification requirements or operate in breach of the requirements may have their qualification classification certificates degraded or revoked. For the purpose of carrying out the construction and development of a real estate project, the real estate developers shall, after signing the land grant contract in accordance with the Regulations on Land Granting and Transfer and the Tender, Auction and Listing Regulations, attend certain procedures and obtain relevant approval documents in relation to the design, planning, construction and development of the land.

Planning and Construction Permits

Under the "Regulations on Planning Administration regarding Granting and Transfer of State-owned Land Use Right in Urban Area" (城市國有土地使用權出讓轉讓規劃管理辦法) promulgated by the Ministry of Construction in December 1992, a real estate developer shall apply for a Construction Land Planning Permit (建設用地規劃許可證) from the municipal planning authority. After obtaining the Construction Land Planning

Permit, the real estate developer shall then organise the necessary planning and design work in accordance with relevant planning and design requirements. A planning and design proposal in respect of the real estate project shall be submitted to the competent planning authority following the requirements and procedures under the Urban and Rural Planning law of the PRC (中華人民共和國城鄉規劃法) promulgated in October 2007 and enforced on January 1, 2008 and a Construction Works Planning Permit (建設工程規劃許可證) must be obtained from the planning authority.

The real estate developer shall then apply for a Work Commencement Permit (建築工程施工許可證) from the relevant construction authority in accordance with the “Regulations on Administration regarding Permission for Commencement of Construction Works (建築工程施工許可管理辦法) promulgated by the Ministry of Construction in October 1999 and as amended in July 2001.

Acceptance and Examination upon Completion of Real Estate Project

Under the Provisional Regulations on Acceptance Examination Upon Completion of the Construction Projects of Buildings and Infrastructures for Urban Utilities (房屋建築工程和市政基礎設施工程竣工驗收暫行規定) (the “Acceptance and Examination Regulations”) promulgated by the Ministry of Construction in June 2000 and the Regulations on the Administration of the Construction Project Quality (建設工程質量管理條例) promulgated by the State Council in January 2000 (the “Construction Quality Regulations”), after completion of construction works of the real estate project, the real estate developer shall organise and apply for an acceptance examination of the construction works and obtain a completion certificate. A real estate project may not be delivered before passing the acceptance examination and obtaining the completion certificate.

Sales/Pre-sales of Commodity Buildings

Commodity buildings can be sold before or after their completion. These sales are regulated and conducted in accordance with the provisions of the “Regulations for the Administration of Sale of Commodity Buildings (商品房銷售管理辦法), or the Sales Regulations promulgated by the Ministry of Construction in April 2001, the “Measures for the Administration of Pre-sale of Commodity Buildings (城市商品房預售管理辦法), or the Pre-sales Measures promulgated and amended by the Ministry of Construction in November 1994, August 2001 and July 2004 respectively and in accordance with the Development Regulations.

For units of a commodity building sold before completion (a “Pre-sale”) to occur under the Pre-sale Regulations, a developer must make the necessary pre-sale registration with the real estate development authority of the relevant city or county and obtain a pre-sale permit. A Pre-sale will take place if:

- The premium fee in respect of the land use rights has been paid in full and the land use rights certificate has been obtained;
- The construction works planning permit and the construction project commencement permit have been obtained;
- At least 25% of the total amount of the project investment fund has been injected into the development of the project and the progress of construction and the expected completion date of the project has been ascertained; and
- The pre-sale permit has been obtained.

Various local governments have enacted local regulations to supplement the national requirements.

Pursuant to the Pre-sale Measures, pre-sale proceeds shall only be applied towards settlement of the related construction cost. In Beijing and other cities, the local real estate administration authorities have formulated, in accordance with the Pre-sale Measures, their own rules with respect of the supervision of the use of pre-sale proceeds. Under these local rules, the developer shall open an escrow account of pre-sale proceeds in a commercial bank of the same locality as the commodity building, to ensure that all pre-sale proceeds are used to the related construction expenses.

Under the “Regulations for the Administration of Sale of Commodity Buildings” (商品房銷售管理辦法), commodity buildings may be put to post-completion sale only when the following preconditions have been satisfied: (a) the real estate development enterprise offering to sell the post-completion buildings shall have a enterprise legal person business license and a qualification certificate of a real estate developer; (b) the enterprise has obtained a land use right certificate or other approval documents of land use; (c) the enterprise has the permit for construction project planning and the permit for construction; (d) the commodity buildings have been completed and been inspected and accepted as qualified; (e) the relocation of the original residents has been well settled; (f) the supplementary essential facilities for supplying water, electricity, heating, gas, communication, etc. have been made ready for use, and other supplementary essential facilities and public facilities have been made ready for use, or the schedule of construction and delivery date of have been specified; and (g) the property management plan has been completed. Before the post-completion sale of a commodity building, a real estate developer shall submit the Real Estate Development Project Manual and other documents showing that the preconditions for post-completion sale have been fulfilled to the real estate development authority for making a record.

LEGAL SUPERVISION RELATING TO REAL ESTATE MANAGEMENT SECTOR IN THE PRC

Foreign-invested Real Estate Management Enterprises

According to the “Foreign Investment Industrial Guidance Catalogue (amended in 2011)” (外商投資產業指導目錄 (2011年修訂)), real estate management falls within the Category of Permitted Foreign Investment Industries. According to the “Foreign Investment Industrial Guidance Catalogue” and the relevant requirements set out under the laws and the administrative regulations on foreign investment enterprises, a foreign invested real estate management enterprise can be set up in the form of Sino-foreign equity joint venture, Sino-foreign cooperative joint venture or wholly foreign owned enterprise. Before the administration of Industry and Commerce registers a foreign investment enterprise as a foreign-invested real estate management enterprise, the foreign invested real estate management enterprise should obtain an approval from the relevant department of commerce and receive a “Foreign Investment Enterprise Approval Certificate”.

Qualifications of a real estate management service enterprise

According to the “Regulation on Real Estate Management” (物業管理條例) enacted by the State Council on June 8, 2003 and enforced on September 1, 2003, as amended on August 26, 2007 the state implements a qualification scheme system in monitoring the real estate management enterprises. According to the “Measures for Administration of Qualifications of Real Estate Service Enterprises” (物業服務企業資質管理辦法) enacted by the Ministry of Construction on March 17, 2004 and enforced on May 1, 2004, as amended on November 26, 2007 a newly established real estate management service enterprise shall, within 30 days from the date of receiving its business license, apply to the relevant local bureau in charge of the real estate management service under the local government or to the municipalities directly under the Central Government for a grading assessment. The departments of qualification examination and approval will check and issue a “real estate management qualification certificate” corresponding to their grading assessment results.

According to the “Measures for the Administration on Qualifications of Real Estate Service Enterprises”, the qualifications of a real estate management service enterprise shall be classified as class one, class two and class three. The competent construction department of the State Council shall be responsible for issuance and administration of the qualification certificate of the class one real estate management enterprises. The competent construction departments of the people’s governments of provinces and autonomous regions shall be responsible for issuance and administration of the qualification certificate of the class two real estate management service enterprises, and the competent realty departments of the people’s governments of municipalities directly under the Central Government shall be responsible for issuance and administration of the qualification certificate of the classes two and three real estate management service enterprises. The competent realty departments of the people’s governments of the cities divided into districts shall be responsible for the issuance and administration of the qualification certificate of the class three real estate management service enterprises.

The real estate management service enterprises with the class one qualification may undertake various real estate management projects. The real estate management enterprises with the class two qualification may undertake the real estate management business of residential management projects of less than 300,000 sq.m. and the non-residential management projects of less than 80,000 sq.m. The real estate management service enterprises with the class three qualification may undertake the real estate management business of residence projects of less than 200,000 sq.m. and non-residence projects under 50,000 sq.m.

An annual inspection system shall be implemented on the qualifications of real estate management enterprises. The annual inspection on the real estate management enterprises of varied classes of qualifications shall be presides over by the corresponding departments of qualification examination and approval.

Employment of A Real Estate Management Service Enterprise

According to the “Regulation on Real Estate Management”, the general meeting of owners can select and dismiss the real estate management enterprises if owners holding 2/3 voting rights or more in the district of the real estate management consent. If, before the formal employment of a real estate management by the owners or the general meeting, the construction unit is to employ a real estate management enterprise, it shall enter into a preparation stage real estate services contract in writing with the real estate management enterprise.

LEGAL SUPERVISION RELATING TO HOTEL SECTOR IN THE PRC

Foreign-invested Hotel Project

According to the “Foreign Investment Industrial Guidance Catalogue (amended in 2011)”, construction and operation of high-end hotels fall within the category of “Restricted Foreign Investment Industry”. Construction and operation of common and economic hotels other than high-end hotels fall within the category of “permitted foreign investment industry”. A foreign investment enterprise investing in the hotel business can set up an enterprise in the form of sino-foreign equity joint venture, sino-foreign co-operative joint venture or wholly foreign-owned enterprise according to the “Foreign Investment Industrial Guidance Catalogue (amended in 2004)” and the requirements of the relevant laws and the administrative regulations on foreign investment enterprises. The foreign investment enterprise in hotel business should apply for an approval with the relevant department of commerce, and obtain an Approval Certification for a Foreign Investment Enterprise before registering to the administration of industry and commerce.

Hotel Management

The procedures involved in hotel construction in China including obtaining approval for land use, project planning and project construction shall also be subject to the aforementioned regulations relating to real estate project development. There is currently no special authority in China responsible for the daily management of hotel business. The supervision of daily management of hotel business belongs to different authorities in accordance with the respective business scopes of different hotels. The supervision mainly includes the following:

Legal Supervision on Security and Fire Control

Pursuant to the “Measures for the Control of Security in the Hotel Industry” (旅館業治安管理辦法) issued by the Ministry of Public Security of the People’s Republic of China, enforced on November 10, 1987 and amended on January 20, 2006 and January 8, 2011, a hotel can operate only after obtaining an approval from the local public security bureau and a business license has been granted. The hotel enterprise should file to the local public security bureau and its branches in the county or city, if hotel enterprise has any change including closing, transferring or merging of business, changing place of business and name, etc. Pursuant to the “Provisions on the Administration of Fire Control Safety of State Organs, Organisations, Enterprises and Institutions” (機構、團體、企業、事業單位消防安全管理規定) enacted by the Ministry of Public Security on November 14, 2001, enforced on May 1, 2002 and amended on May 21, 2009, hotels (or motel) are units which require special supervision on fire control and safety. When the hotels are under construction, renovation or re-construction, fire control examination procedure is required to carry out and when the construction, renovation or re-construction project is completed, the hotels can only open for business after passing a fire control inspection.

Supervision on Public Health

According to relevant regulations and rules in relation to public health, hotels fall in the scope of public health supervision. The operating enterprise should gain the sanitation license. The measures for granting and managing sanitation license are formulated by public health authority of province, autonomous region, and municipality directly under the central government. Sanitation license is signed by public health administration above county level and its grant is taken charge of by public health and epidemic prevention institutions. The sanitation license should be reviewed once every two years.

Supervision on Food Hygiene

According to the relevant regulations and rules in relation to food hygiene supervision, hotels operating catering services should obtain food hygiene licenses. The food hygiene licenses are grant by food hygiene administrative bodies above county level. Purchase, reserve and processing of food, tableware, and service should meet relevant requirements and standards of food hygiene.

Supervision on Entertainment

According to the “Regulation on the Administration of Entertainment Venues” (娛樂場所管理條例) enacted by the State Council on January 29, 2006 and enforced on March 1, 2006, hotels that operate singing, dancing and game places for profits should apply to the local competent departments for culture administration under the people’s government at the county level or above for the entertainment commercial operation approval. The competent departments for entertainment administration shall issue a license (娛樂經營許可證) for entertainment business operations, which verifies the number of consumers acceptable to the entertainment venue according to the prescriptions as set down by the competent

department governing entertainment administration under the State Council if it approves the application. According to the regulations concerning broadcast, movie and TV, hotels above three-star or the second rank of the national standards may apply to local broadcast and television administration of the county or above for setting ground equipment receiving satellite signal to receive entertainment programmes from abroad. After finishing setting ground equipment and gain the approval from broadcast and television administration of the province, autonomous region, and municipality directly under the central government and the approval from state security administration, the permit of receiving foreign television programme from satellite should be issued.

Supervision on Disposition of Sewage and Pollutants

In the PRC, property developers are subject to various environmental laws and safety regulations set by the PRC national, provincial and local governments. According to Environment Protection Law (中華人民共和國環境保護法) promulgated by SCNPC on December 26, 1989, and related legislation and regulations on prevention and control of water pollution, atmospheric pollution, solid waste pollution, any enterprise or institution that directly or indirectly discharges sewage or pollutants into environment shall report to or registered with local administrative environment protection department, and/or obtain relevant pollutant discharge permit and pay pollutant discharge fee. According to Regulations on Administration of Levy and Use of Pollutant Discharge Fee (排污費徵收使用管理條例), or the Regulations, promulgated by the State Council on January 2, 2003, and become effective as of July 1, 2003, entities and self-employed individuals that directly discharge pollutants into the environment (hereinafter referred to as dischargers) shall pay pollutant discharge fee in accordance with the provisions of the Regulations. Dischargers that discharge wastewater to facilities for centralized treatment of urban wastewater and pay wastewater treatment fee are not obliged to pay pollutant discharge fee. Dischargers that have constructed or reconstructed facilities or field for storage or disposal of industrial solid wastes which meet the standard for environment protection, are not obliged to pay pollutant discharge fee from the date of completion of such construction or reconstruction.

Supervision on Special Equipment Security

Elevators (lifts or escalators), boilers and pressure containers and so on are special equipment. According to the Regulations on Security Supervisal of Special Equipment (特種設備安全監察條例) enacted by the State Council on January 24, 2009 and enforced on May 1, 2009, hotels should register with the special equipment security supervisal authority of municipality directly under the central government or city which has set up districts, and should apply for inspection regularly with the special equipment examination institution a month before the expiration of security examination according to the requirement of regular examination by technical security standard.

Supervision on Sale of Tobacco and Alcohol

According to law and regulations in relation to sale of tobacco, hotels that operate retail of tobacco should apply to the tobacco monopoly administration for a Tobacco Monopoly Retail License. According to the “Measures for the Administration on Foreign Investment in Commercial Fields (外商投資商業領域管理辦法)” enacted by Ministry of Commerce on April 16, 2004 and enforced on June 1, 2004, foreign investment enterprise that operates wholesale and retail is not allowed to operate in tobacco business. According to the “Measures for the Administration of Alcohol Circulation (酒類流通管理辦法)” enacted by Ministry of Commerce on November 7, 2005 and enforced on January 1, 2006, the enterprise that engages in the retail of alcohol should handle the archival filing and registration in the administrative department of commerce at the same level as the administrative department for industry and commerce

where the registration is handled. The licensing system shall be continued in those regions where the licensing administration of alcohol circulation has been carried out according to law.

Leasing

Both the Urban Land Regulations and the Real Estate Law permit leasing of granted 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 Leasing of Commodity Housings (商品房屋租賃管理辦法), or the Leasing Measures. The Leasing Measures were promulgated by the Ministry of Construction on December 1, 2010 in accordance with the Real Estate Law in order to strengthen the administration of the leasing of Commodity Housings. 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 land use rights shall not exceed 20 years. The lease agreement becomes effective upon signing; however, it must be registered with the relevant real estate 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 sublet the premises to sub-tenants. Local governments may impose rent controls.

According to the Real Estate Law, when a building is renting out, the rental income derived from the any underlying land the landlord has acquired only allocated land use rights for which must be turned over to the State.

Insurance

There are no mandatory provisions in the PRC laws, regulations and government rules which require a real estate developer to take out insurance policies for its real estate projects. According to the "Construction Law of the People's Republic of China" (中華人民共和國建築法) promulgated by the Standing Committee of the National People's Congress on April 22, 2011 and effective as of July 1, 2011, construction enterprises must take out industrial injury insurance for all employees and are encouraged to take out accident and casualty insurance for workers engaged in dangerous operations and pay insurance premium. In the "Opinions of the Ministry of Construction on Strengthening the Insurance of Accidental Injury in the Construction Work" (建設部關於加強建築意外傷害保險工作的指導意見) by the Ministry of Construction on May 23, 2003, the Ministry of Construction further emphasises the importance of the insurance of accidental injury in the construction work and put forward the detailed opinions of guidance.

Separation of markets for domestic and overseas property purchasers

When the PRC property market first developed in the early 1990s, there was a "overseas" market in which high-end properties were designated to be sold to purchasers from Hong Kong, Macau, Taiwan and foreign countries for hard currency and a "domestic" market in which properties of domestic standards of quality were designated to be sold to local PRC purchasers for Renminbi. Such mandatory bifurcation of the property market has been lifted in Beijing and Shanghai in recent years.

Real Estate Loans

On June 5, 2003, the PBOC promulgated the Notice on Further Strengthening the Administration of Real Estate Related Credit (關於進一步加強房地產信貸業務管理的通知). According to this notice, commercial banks shall focus their business on supporting real estate projects targeted at mid- to lower-income households

and appropriately restrict the granting of real estate loans to projects for the construction of luxury apartments and houses. The notice provides that when applying for bank loans, a real estate development company must contribute at least 30% of the total investment of the project from its own funds, and prohibits banks from advancing funds to real estate developers as working capital or for payment of land grant fees. See “Recent macroeconomic control measures” below for recent developments in this area.

On August 30, 2004, the CBRC issued the Guidelines for Commercial Banks on Risks of Real Estate Loans (商業銀行房地產貸款風險管理指引). According to the guidelines, no loans shall be granted in relation to projects which have not obtained requisite land use rights certificates, construction land planning permit, construction works planning permit and work commencement permit. The guidelines also stipulated that not less than 35% of the investment in a property development project must be derived from the real estate developer’s own capital for the development project in order for banks to extend loans to the real estate developer. In addition, the guidelines noted that commercial banks should set up strict approval systems on granting loans.

Recent Macroeconomic Control Measures

According to the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market (關於規範房地產市場外資准入和管理的意見) enforced on July 11, 2006, foreign-invested real estate development enterprises which have not paid up their registered capital fully, or failed to obtain a land use rights certificate, or with under 35% of the capital for the project, will not be allowed to obtain a loan in or outside China, and foreign exchange administration departments shall not approve any settlement of foreign loans by such enterprises.

On July 10, 2007, SAFE issued a circular indicating that it would not process for foreign investment enterprises in the real estate sector any foreign debt registration or conversion of foreign debt that was approved by the local MOFCOM and filed with MOFCOM on or after June 1, 2007.

On September 27, 2007, PBOC and CBRC jointly issued a Circular on Strengthening the Administration on the Lending Practice for Commercial Properties (中國人民銀行、中國銀行業監督管理委員會關於加強商業性房地產信貸管理的通知), which further tightened mortgage lending, including: For capital sum (owners’ interest) portion of projects not reaching the 35% hurdle rate or projects not obtaining the land usage certificate, the construction land planning permit, the construction engineering planning permit or work commencement permit, commercial banks shall not grant any forms of lending. Upon MLR and the Construction Authorizer’s investigation and confirmation, those real estate development enterprises which have been hoarding land or properties for speculation, commercial banks shall not grant any lending. For commodity houses left idle for more than 3 years, commercial banks shall not accept such properties as collaterals for lending.

On December 5, 2007, PBOC and CBRC jointly issued the Supplemental Circular on Strengthening the Management of Commercial Real-Estate Credit Loans (關於加強商業性房地產信貸管理的補充通知), which clarifies that the times of property mortgage loans should be calculated on a family basis, including the borrower and his spouse and minor children.

On September 21, 2010, MLR and CIN announced the Notice Relating to Enhancing Housing Property Land and Construction Management Restriction (關於進一步加強房地產用地和建設管理調控的通知), requiring a strict management to housing land sales, and a strict examination to the land bidders. For breaching the following requirements, MLR will forbid the land bidder and its controlling shareholders to bid land: (i) forging documents and land speculation; (ii) illegal transfer of land use rights; (iii) letting land being idle for more than a year; and (iv) breaching of the conditions prescribed by the contract of assignment of the land.

On September 29, 2010, PBOC and CBRC issued the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (關於完善差別化住房信貸政策有關問題的通知), which

prohibits commercial banks from granting or extending loans to property developers that violate laws and regulations such as (i) holding idle land; (ii) changing the land use; (iii) changing the land nature; (iv) delaying the commencement and completion of development; and (v) intentionally holding properties for future sale, for the purpose of new property development.

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

According to the Notice on Implementation Measures on Urban Housing Land Management and Regulation in 2012 (關於做好 2012年房地產用地管理和調控重點工作的通知) promulgated by the Ministry of Land and Resources in February 2012, the target total supply of urban housing land shall not be lower than the annual average supply for the preceding five years.

According to the Circular on the Distribution of the Catalogue for Restricted Land Use Projects (2012 Edition) and the Catalogue for Prohibited Land Use Projects (2012 Edition) (關於印發 (限制用地項目目錄) (2012年本)和 (禁制用地項目目錄) (2012年本)的通知) promulgated by the Ministry of Land and Resources in May 2012, the transferred area of the residential housing projects should not exceed (i) seven hectares for small cities and towns, (ii) 14 hectares for medium-sized cities, or (iii) 20 hectares for large cities and have a plot ratio which is not more than 1.0.

On June 1, 2012, the Ministry of Land and Resources revised and promulgated the Measures for the Disposal of Idle Land (閒置土地處置辦法), which further clarified the scope and definition of idle land, as well as the corresponding punishment measures compared to the old version. Pursuant to the new Measures for the Disposal of Idle Land, under the following circumstances, a parcel of land shall be defined as “idle land”:

- any State-owned land for construction use, of which the holder of the land use right fails to start the construction and development thereof within one year after the commencement date of the construction and development work as agreed upon and prescribed in the contract for fee-based use of State-owned land for construction use, or the decision on allocation of State-owned land for construction use;
- any State-owned land for construction use of which the construction and development have been started but the area of land that is under construction and development is less than one third of the total area of land that should have been under construction and development or the amount invested is less than 25% of the total investment, and the construction and development of which has been suspended for more than one year.

If a parcel of land is deemed as idle land by the competent department of land and resources, unless otherwise prescribed by the new Measures for the Disposal of Idle Land, the land shall be disposed of in the following ways:

- where the land has remained idle for more than one year, the competent department of land and resources at the municipal or county level shall, with the approval of the people’s government at the same level, issue a Decision on Collecting Charges for Idle Land to the holder of the right to use the land and collect the charges for idle land at the rate of 20% of the land assignment or allocation fee; and the said charges for idle land shall not be included in the production cost by the holder of the land use right; and

- where the land has remained idle for more than two years, the competent department of land and resources at the municipal or county level shall, with the approval of the people's government at the same level, issue a Decision on Taking Back the Right to Use the State-owned Land for Construction Use to the holder of the land use right.

Central Government Measures

The PRC Government has implemented a series of measures to tighten control on the property market since 2003. In August 2003, the State Council issued the Notice on Promoting the Sustained Healthy Development of the Property Market (國務院關於促進房地產市場持續健康發展的通知) formulating the policies, directions and guidelines for the regulation of the property market, including tightening control on the construction of high-end residential properties, strengthening the property mortgage financing market, improving urban planning and controlling land supply. Since 2004, there has been a stabilisation of the residential property market, particularly as a result of the PRC Government's efforts to discourage speculation and increase the supply of affordable housing. In April 2004, the State Council increased the capital ratio of fixed assets investment projects in real estate development (except for low-end residential properties) and three other major industries from 20% or above to 35% or above.

Since March 2005, central government agencies, including the Ministry of Construction, the National Development and Reform Commission, the Ministry of Finance, the Ministry of Land and Resources, the PBOC, the State Administration of Taxation and the CBRC, have introduced a number of measures to stabilise the property market. The measures, among others, included: (i) the removal of the preferential mortgage rate for residential housing by the PBOC, while still allowing banks to give a 10% discount on home loans, which meant that the minimum mortgage rates on residential housing effectively increased to approximately 5.55%; (ii) raising the minimum down payment by purchasers of properties that have yet to be completed from 20% to 30% of the purchase price, and requiring that monthly mortgages should not exceed 50% of household income; (iii) placing restrictions on the amount of money that can be lent to individuals for multiple investment mortgages; (iv) imposing a business tax of 5% of the sale price if a homeowner re-sells a residential unit within five years of purchase, or a business tax of 5% of the increased value if a homeowner resells a luxury residential unit after five years of purchase; (v) prohibiting homeowners from reselling properties before the building ownership certificate is obtained; and (vi) other measures designed to increase the supply of subsidised housing and improve the availability of information on the demand and supply of residential housing.

In response to the notices issued by the State Council, the PRC central bank adopted numerous financial measures and issued a series of lending guidelines for PRC banks to follow. In addition to the Notice on Further Strengthening the Administration of Real Estate Related Credit (關於進一步加強房地產信貸業務管理的通知) referred to above, on March 16, 2005, the PRC central bank increased the basic interest rate for financing of residential properties, which was the second increase in the basic interest rate within a time period of five months, to bring the basic interest rate for financing of properties for residential purposes more in line with the interest rate applicable for financing of properties for commercial and other purposes. The measure imposes a minimum interest rate for financing of properties for residential purposes equal to 90% of the basic rates for lending for other purposes for the same period.

The State Council and the Ministry of Land and Resources also separately issued a number of regulations and notices on land supply. Following the 2002 Regulations, the Ministry of Land and Resources issued the Notice on Continuing the Review of the Implementation of the Grant of Land use Rights for Commercial Uses by Invitation of Bids Auction or Listing on a Land Exchange (關於繼續開展經營性土地使用權招標拍賣掛牌出讓情況執法監察工作的通知) on March 31, 2004, requiring all local land administration authorities to strictly enforce the 2002 Regulations. In addition, the Ministry of Land and Resources required that with effect from August 31, 2004, the grant of land use rights must be made pursuant to auctions or listing on a land exchange and that no land use rights for commercial uses may be granted by way of agreement. In the Urgent Notice of

the General Office of the State Council on Intense Regulation and Rectification of the Land Market and Strict Administration of Land (關於深入開展土地市場治理整頓嚴格土地管理的緊急通知) issued by the State Council on April 29, 2004, the development of agricultural land was suspended for a period of six months pending rectification by the PRC Government of irregularities in land development in China.

The State Council continued to issue notices to stabilise the property market in 2005. On March 26, 2005, the State Council issued the Notice on Effectively Stabilising the Price of Residential Property (關於切實穩定住房價格的通知), which required the relevant government authorities to take administrative measures to stabilise real estate prices. These measures, among others, included increasing land supply for ordinary and low-end residential properties and formulating land supply, fiscal, tax and financial policies to balance supply and demand in the property market. On April 30, 2005, the Ministry of Construction, the National Development and Reform Commission, the Ministry of Finance, the Ministry of Land and Resources, the PBOC, the State Administration of Taxation and the CBRC jointly promulgated the Opinion on Duly Stabilising the Prices of Residential Properties (關於做好穩定住房價格工作的意見), or the Opinion, and issued a series of measures to serve as guidelines for the construction and purchase of residential properties. Among other things, the Opinion discourages land speculation by adjusting land supply, prohibits the re-sale of uncompleted residential properties and imposes a business tax on the resale of residential properties by individuals within two years from initial purchase. Starting from June 1, 2005, for residential properties sold within two years from the original purchase, business tax is levied on the selling price. Also, the Opinion emphasises that local authorities are only authorised to grant preferential treatments to ordinary residential property projects that fulfil the requirements specified in the Opinion, subject to a maximum amount of variation of not exceeding 20%.

On May 17, 2006, the PRC Government announced further measures to promote healthy development of the real estate industry in the PRC, which include: the plan to focus on property developments for low-income households, the usage of taxation, bank credit and land policies to regulate housing demand, and the policy to crack down on property developers and local authorities who hoard land and/or drive up prices. On May 24, 2006, the PRC Government approved further detailed measures to implement the aforesaid measures. On May 30, 2006, the State Administration of Taxation promulgated the Circular Addressing the Policies Governing the Adjustment of Real Estate Business Tax (關於加強住房營業稅徵收管理有關問題的通知), or the Circular. The Circular requires that, among other things, starting from June 1, 2006, for residential properties sold within five years since the original purchase, business tax will be levied on the total selling price; for ordinary residential properties sold more than five years (inclusive) after the original purchase, business tax will be exempted. For non-ordinary residential properties sold more than five years (inclusive) after the original purchase, business tax will be levied on the difference between the selling price and the original purchase price.

Pursuant to these measures, local governments are required to adopt plans, by September 2006, to focus on developing low-to-mid-priced and small-to-medium-size properties to meet demand from owner-occupiers. These measures stipulate that commencing from June 1, 2006, the minimum down payment is 30% of the total purchase price for residential units with floor area exceeding 90 square metres on all existing units and those yet to be completed, or a down payment of 20% on residential units for self use with floor area under 90 square metres. The measures require that at least 70% of the residential units in residential housing projects approved or commenced after June 1, 2006 must be no larger than 90 square metres. The measures continue to prohibit land provision for houses and restrict land provision for development of low density and large residential property.

On July 6, 2006, the Ministry of Construction promulgated Certain Opinions regarding the Implementation of the Ratio Requirements for the Structure of Newly Constructed Residential Units (關於落實新建住房結構比例要求的若干意見), or the New Opinions, to carry out the Opinions approved by the State Council. The New Opinions stipulate that, the residential units with a floor area of less than 90 square metres shall account for over

70% of the total area of residential units, which are newly approved and constructed in each city or county after 1 June 2006. The relevant local government will have authority to determine the configuration of newly constructed property.

On July 11, 2006, the Ministry of Construction, the Ministry of Commerce, the National Development and Reform Commission, the PBOC, the State Administration for Industry and Commerce and the SAFE jointly issued the Opinion on Regulating the Access and Management of Foreign Capital in the Property Market (關於規範房地產市場外資准入和管理的意見) (2006 No. 171), or the “171 Opinion”. The 171 Opinion aims to regulate access for foreign investment in the property market and to strengthen management of real estate purchases by foreign invested enterprises. The 171 Opinion provides, among others that a foreign institution or individual must establish a foreign-invested enterprise in order to purchase real estate in the PRC which is not intended for that institution or individual’s own use. The registered capital of such foreign-invested enterprise must be at least 50% of its total investment in PRC real estate if the amount of such investment exceeds US\$10 million. Branches and representative offices of foreign institutions in the PRC and foreign individuals who work or study in the PRC for more than one year may purchase real estate for their own use but not for any other purpose; and foreign institutions which have no branches or representative offices in the PRC or foreign individuals who work or study in the PRC for less than a year are prohibited from purchasing any real estate in the PRC. Residents of Hong Kong, Macau and Taiwan and foreigners of Chinese origin are not subject to the one-year residency requirement and may purchase real estate in the PRC for their own use. On September 1, 2006, the SAFE and the Ministry of Construction jointly issued Notice in respect of Standardisation of Issues Relating Foreign Exchange of Property Market (關於規範房地產市場外匯管理有關問題的通知) or the 47 Notice to implement the 171 Opinion. The 47 Notice provides, among other things, the specific procedures for purchasing houses by branches and representative offices established in the PRC by foreign institutions, foreign individuals who work or study in the PRC for more than one year, and residents of Hong Kong, Macao and Taiwan as well as foreigners of Chinese origin. The 47 Notice also stipulates that if the foreign invested real estate enterprise has failed to pay its registered capital in full or obtain the “State-Owned Land Use Right Certificate”, or its own capital funds do not reach 35% of the total investment for the project, the enterprise is prohibited from applying for overseas loans, and the branches of the SAFE are not permitted to approve such loans.

On December 31, 2006, the Provisional Regulations on Urban Land Use Tax was amended by the State Council. AS of January 1, 2007, on the basis of that amended provisional regulations, the urban land use tax is charged at a rate three times as high as it was before, and foreign invested enterprises cannot enjoy relevant tax exemption any longer.

On May 23, 2007, MOFCOM and SAFE jointly promulgated a Notice to further Strengthen and Regulate the Approval and Supervision of Foreign Direct Investment in Real Properties (關於進一步加強、規範外商直接投資房地產業審批和監管的通知), or “Circular 50”, which emphasized that overseas investors cannot circumvent the governmental examination and approval requirements through the change of beneficial ownership of domestic real property enterprises. Circular 50 exerts stricter control over government approval for the establishment of foreign invested real property enterprises and requires that foreign investors must obtain land use rights or property ownerships, or have entered into purchase agreements for land use rights or for real properties with the relevant land administration authorities, land developers or owners of real properties prior to its establishment of a real property enterprise. Otherwise, its application for the establishment of a real property enterprise will not be approved.

On August 30, 2007, the Standing Committee of NPC promulgated the revised PRC Urban Real Estate Administration Law which took effect on the same day. The law stipulates that the State, for public benefit, can take back State-owned land and/or the premises, owned by enterprises or individuals, built on State-owned land. The local PRC Government will provide the enterprises or individuals with compensation for the return of the State-owned land and/or the demolition.

On September 27, 2007, PBOC and CBRC further tightened mortgage lending by PRC banks, by increasing the amount of down payment a property purchaser must make before seeking mortgage financing.

On October 10, 2007, the Ministry of Land and Resources issued a revised regulation, which reiterated that property developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use rights certificate and/or commence development on the land, effective November 1, 2007.

On January 3, 2008, the State Council issued the Notice to Enhance the Economical and Intensive Use of Land (關於促進節約集約用地的通知), which requires full utilization of the market's fundamental efforts in promoting land resources distribution, and perfecting the economical and intensive usage of land mechanism; (a) to strictly enforce the industrial and operative lands' bid tender, auction and listing transfer system. For industrial usage land and operative land of commercial, traveling, entertainment and commodity housings etc. (including land usage for ancillary business operation, research and training), and for the same land lot with two or more intending land users, an open transfer by bid tender, auction and listing shall be carried out; (b) to enhance the contract system for land usage; (c) to perfect residential land structure, continue to suspend land supply for villas development of houses, confirming not less than 70% of the residential land supply used for construction of low rent housing, economical housing, fixed-price housing and medium and small sized housing, to prevent large sized housing to occupy excessive land.

On December 20, 2008, the General Office of the State Council issued the Certain Opinions on Promoting the Healthy Development of Real Estate Market (關於促進房地產市場健康發展的若干意見), which changed the period of the business tax levied on the full amount of the sale proceeds on conveyance of residential properties from five years from the date of purchase to two years from the date of purchase. If an individual sells his non-ordinary apartment after two or more years from the date of purchase, the business tax will be levied on the balance between the selling price and the purchase price. This policy is executed temporarily until December 31, 2009.

On January 7, 2010, the General Office of the State Council issued the Notice on Promoting the Steady and Healthy Development of the Real Estate Market (關於促進房地產市場平穩健康發展的通知), which is also aimed at dampening speculation in the property market and slowing the rate of price increases. The notice, among other things, provides that the minimum down payment for the purchase of a second residential property by any household with mortgage on its first residential property shall be 40% of the purchase price.

On March 8, 2010, the Ministry of Land and Resources issued the Notice on Strengthening the Supply and Supervision of Land Use for Real Estate Property (關於加強房地產用地供應和監管有關問題的通知). The notice, among other things, provides that (i) land resource authorities shall strictly control the land supply for large-sized apartments and prohibit the land supply for villas; and (ii) the land use rights grant contract must be executed within ten days after a grant of land has been mutually agreed and a down payment of 50% of the land grant premium shall be paid within one month from the execution of the land use rights grant contract with the remaining amount to be paid no later than one year after the execution of the land use rights grant contract.

On April 17, 2010, the State Council issued the Notice on Resolutely Curbing the Rapid Rising of the House Price in Certain Cities (關於堅決遏制部分城市房價過快上漲的通知), according to which a stricter differential housing credit policy shall be enforced. It provides that, among other things, (1) for first-time family buyers (including the borrower, his/her spouse and his/her underage children, similarly hereinafter) of apartments larger than 90 square meters, a minimum 30% down payment must be paid; (2) the down payment requirement on second-home mortgages was raised to at least 50% from 40% and also reiterated that an extra 10% should be adopted on the interest rates for housing loans granted to such buyers; and (3) for those who buy three or more houses, even higher requirements on both down payments and interest rates shall be levied. In addition, the banks can suspend housing loans to buyers who own two or more housing units in places where housing prices are rising too rapidly and are too high, and housing supply is insufficient.

On September 29, 2010, PBOC and CBRC issued the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (關於完善差別化住房信貸政策有關問題的通知), which, among other things:

- prohibits commercial banks from providing housing mortgage temporarily to any members of a family unit purchasing the third or the subsequent residential housing or non-local residents who fail to provide local one-year or longer tax payment certificates or social insurance payment certificates; prohibits commercial banks from granting or extending loans to property developers that violate laws and regulations such as: (i) holding idle land; (ii) changing the land use; (iii) delaying the commencement and completion of development; (iv) intentionally holding properties for future sale, for the purpose of new property development;
- increase the minimum of down payment to at least 30% of the purchase price of the property.

On January 26, 2011, the General Office of the State Council promulgated the Circular of on Issues Concerning Further Works of Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作的有關問題的通知) (the “January 26, 2011 Circular”), as the general rule, municipalities, provincial capitals and cities with high housing prices shall make purchase restrictions for a specified period. In principle, (a) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one house (including the new commodity residential house or a second hand one); and (b) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family that cannot provide the local payment of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential houses.

Local Legislation

While the Urban Land Regulations set out a general framework for transactions relating to land use rights, Beijing Municipal legislation regulates specific transactions within specified areas relating to the grant and transfer of land use rights. These local regulations are numerous. Some of them are inconsistent with national legislation. The central authorities have taken the position that if there are inconsistencies, the national legislation will prevail.

Tax

Income Tax

According to the PRC Enterprise Income Tax Law (the “EIT Law”, 中華人民共和國企業所得稅法) promulgated by National People’s Congress on March 16, 2007, which came into effect on January 1, 2008, a uniform income tax rate of 25% is applied equally to domestic enterprises, as well as foreign investment enterprises. Pursuant to this new EIT Law, dividends and interests payable to a foreign investor are subject to a 20% withholding tax unless the jurisdiction of incorporation for the foreign investor has a tax treaty with China that provides for a different withholding arrangement.

According to the “Implementation Rules of the PRC on the Enterprise Income Tax Law” (中華人民共和國企業所得稅法實施條例) promulgated by the State Council on December 6, 2007 and effective January 1, 2008, a reduced income tax rate of 10% is applicable to any dividends payable to non-PRC enterprise investors from FIEs.

The EIT Law also provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower income tax rate under the then effective tax laws or regulations. The income tax rate of such enterprises will gradually be transiting to the uniform tax rate within the transition period in accordance with implementing rules issued by the State Council. On December 26, 2007, the State Council issued the Circular to Implement the Transition Preferential Policies for the Enterprise Income Tax (關於實施企業所得稅過渡優惠政策的通知), under which, for those enterprises then entitled to a preferential income tax rate of 15% and established before March 16, 2007, the transition income tax rate should be 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012, respectively.

On April 11, 2008, the State Administration of Taxation issued the Notice of Prepayment of Corporate Income Tax of Real Estate Development Enterprises (關於房地產開發企業所得稅預繳問題的通知), requiring real estate developers to prepay enterprise income tax every quarter (or month) according to their current, actual profit. Under this notice, for income generated from pre-sale (before completion of construction) of buildings for residential or commercial use or other kinds, the tax shall be prepaid in the amount of the estimated quarterly or monthly profit calculated on the preset estimated profit rate, which shall be adjusted according to the actual profit after completion of construction of the buildings and settlement of the taxable cost.

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (內地和香港特別行政區關於對所得避免雙重徵稅和防治偷漏稅的安排), or the Avoidance of Double Taxation Agreement, dividend payments to shareholders in Hong Kong would be withheld at a rate of 5% if their investment ratio in invested entities in China is above 25%, or 10% if their investment ratio in invested entities in China is below 25%.

On December 10, 2009, the State Administration of Taxation issued the Circular on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises' Share Transfer (關於加強非居民企業股權轉讓所得企業所得稅管理的通知), effective as of January 1, 2008, under which, where a foreign investor (actual controller) indirectly transfers equity interests in a Chinese resident enterprise by transferring the shares of the offshore holding company that is located in a country (jurisdiction) where the effective tax burden is less than 12.5%, or where the offshore income of the residents is not taxable, the foreign investor shall provide the relevant tax authority in charge with reports containing relevant information within 30 days of the transfers, and where a foreign investor (actual controller) indirectly transfers equity interests in a Chinese resident enterprise through the abuse of form of organization and there are no reasonable commercial purposes such that the corporate income tax liability is avoided, the tax authority shall have the power to re-assess the nature of the equity transfer in accordance with the "substance-over-form" principle and deny the existence of the offshore holding company that is used for tax planning purposes. "Income derived from equity transfers", as mentioned in this circular refers to income derived by non-resident enterprises from direct or indirect transfers of equity interest in China resident enterprises, excluding shares in Chinese resident enterprises that are bought and sold openly on the stock exchange.

Business Tax

Pursuant to the Interim Regulations of the People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例) enacted by the State Council on December 13, 1993 and enforced on January 1, 1994 amended on November 10, 2008 and implemented on January 1, 2009 and its Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance on December 25, 1993, amended on December 15, 2008 and October 28, 2011 and implemented on January 1, 2009, the tax rate on transfer of immovable properties, their superstructures and attachments is 5%.

On May 27, 2005, the State Administration of Taxation, MOFCOM and Ministry of Construction jointly issued a Notice on Strengthening the Administration of Taxes in Connection with Real Estate (關於加強房地產稅收管理的通知). According to the notice, from June 1, 2005, business tax shall be imposed on the full amount of the sales income for an individual, upon the transfer of the ownership of a residential house by an individual within two years from the purchase date. However, transfer of an ordinary residential property may be exempted from business tax upon tax authorities' approval of application for such exemption. According to the Circular on Forwarding Opinions of the Ministry of Construction and other Departments on Stabilizing Housing Prices issued by the General Office of the State Council (國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知) on May 9, 2005, in the case of a house other than an ordinary residential house, business tax shall be imposed on the difference between the sales income and the purchase price, provided that the transfer occurs after two years from the purchase date. Ordinary residential house refers to a residential unit, of which (i) the plot ratio is more than 1.0; (ii) the GFA is less than 120 sq.m.; and (iii) the price is lower than 1.2 times of the average selling price of residential properties on the land of the same category. The provincial-level government may set its own GFA and price requirements with a deviation no more than 20% of the above-mentioned standards.

On December 20, 2008, according to the Certain Opinions on Promoting the Healthy Development of Real Estate Market (關於促進房地產市場健康發展的若干意見), the period of the business tax levied on the full amount of the sale proceeds on conveyance of residential properties from five years from the date of purchase to two years from the date of purchase. This policy was executed temporarily until December 31, 2009.

On December 22, 2009, the Ministry of Finance and State Administration of Taxation issued the Notice on Adjusting the Business Tax Policies on Individual Housing Transfer. The notice provides, effective from January 1, 2010, that where any individual sells non-ordinary residential housing within five years of the original purchase date, the business tax thereon shall be collected on the full sale price; where any individual sells non-ordinary residential housing more than five years after the original purchase date or sells an ordinary housing unit within five years after the original purchase date, the business tax thereon shall be collected on the basis of the difference between the sale price and the original purchase price; where any individual sells an ordinary housing unit more than five years after the original purchase date, it shall be exempted from business tax. The notice was replaced by the Notice on Adjusting the Business Tax Policies on Individual Housing Transfer (the "New Notice") issued by the Ministry of Finance and State Administration of Taxation on January 27, 2011. Under the New Notice, for the sale of an ordinary housing unit or non-ordinary residential housing within five years after the original purchase date, the business tax thereon shall be collected on the full sale price; for the sale of non-ordinary residential housing more than five years after the original purchase date, the business tax thereon shall be collected on the basis of the difference between the sale price and the original purchase price; for the sale of ordinary housing unit more than five years after the original purchase date, it shall be exempted from business tax.

Land Appreciation Tax

According to the requirements of the Provisional Regulations of The People's Republic of China on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例) (the "Land Appreciation Provisional Regulations") which was enacted on December 13, 1993 and effected on January 1, 1994, and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例實施細則) (the "Land Appreciation Detailed Implementation Rules") which was enacted and enforced on January 27, 1995, any appreciation amount gained from taxpayer's transfer of property shall be subject to land appreciation tax. Land appreciation tax shall be subject to a regime of four level progressive rates: 30% on the appreciation amount not exceeding 50% of the sum of deductible items; 40% on the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% on the

appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% on the appreciation amount exceeding 200% of the sum of deductible items. The related deductible items aforesaid include the following:

- amount paid for obtaining the land use right;
- costs and expenses for development of land;
- costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;
- related tax payable for transfer of property;
- other deductible items as specified by MOF.

According to the requirements of the Land Appreciation Provisional Regulations, the Land Appreciation Detailed Implementation Rules and the Notice issued by the MOF in respect of the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts signed before January 1, 1994 (關於對1994年1月1日前簽訂開發及轉讓合同的房地產徵收土地增值稅的通知) which was announced by the MOF and State Administration of Taxation on January 27, 1995, Land Appreciation Tax shall be exempted under any one of the following circumstances:

- Taxpayers building ordinary standard residential properties for sale (i.e. residential properties built in accordance with the local standard for general civilian residential properties. Deluxe apartments, villas, resorts etc. are not under the category of ordinary standard residential properties), where the appreciation amount does not exceed 20% of the sum of deductible items;
- Real estate taken over and repossessed according to laws due to the construction requirements of the State;
- Due to redeployment of work or improvement of living standard, individuals transfer originally self-used residential property, of which they have been living there for 5 years or more, and after obtaining tax authorities' approval;
- For real estates transfer contracts which were signed before January 1, 1994, whenever the properties are transferred, the Land Appreciation Tax shall be exempted;
- If the real estates assignments were signed before January 1, 1994 or the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, the Land Appreciation Tax shall be exempted if the properties are transferred within 5 years after January 1, 1994 for the first time. The date of signing the contract shall be the date of signing the Sale and Purchase Agreement. Particular real estates projects which are approved by the Government for the development of the whole piece of land and long-term development, of which the properties are transferred for the first time after the 5- year tax-free period, after auditing being conducted by the local financial and tax authorities, and approved by MOF and the State Administration of Taxation, the tax-free period would then be appropriately prolonged.

After the issuance of the “Land Appreciation Provisional Regulations” and the “Land Appreciation Detailed Implementation Rules”, due to the relatively long period required for real estates development and transfer, many districts, while they were implementing the regulations and rules, did not mandatorily require the real estates development enterprises to declare and pay the Land Appreciation Tax. Therefore, in order to assist the local tax authorities in the collection of Land Appreciation Tax, the MOF, State Administration of Taxation,

the Ministry of Construction and the Ministry of Land and Resource had separately and jointly issued several notices to restate the following: After the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the real estates are located, and pay the Land Appreciation Tax in accordance with the amount as calculated by the tax authority and within the specified time limit. For those who fail to acquire proof of tax payment or tax exemption from the tax authorities, the real estate administration authority shall not process the relevant title change procedures, and shall not issue the real estate title certificate.

State Administration of Taxation also issued the Notice issued by State Administration of Taxation in respect of the Serious Handling of Administration Work in relation to the Collection of Land Appreciation Tax (關於認真做好土地增值稅徵收管理工作的通知) on July 10, 2002 to request local tax authorities to modify the management system of Land Appreciation Tax collection and operation procedures, to build up a proper tax return system for Land Appreciation Tax, to improve the methods of pre-levying for the pre-sale of real estates. That notice also pointed out that the preferential policy of Land Appreciation Tax exemption for first time transfer of properties under real estate development contracts signed before January 1, 1994 or project proposal that has been approved and capital was injected for development, is expired, and that such tax shall be levied again.

State Administration of Taxation issued the Notice of State Administration of Taxation in respect of the Strengthening of Administration Work in relation to the Collection of Land Appreciation Tax (國家稅務總局關於加強土地增值稅管理工作的通知) on August 2, 2004 and the “Notice of State Administration of Taxation in respect of the Further Strengthening of Administration Work in relation to the Collection of Land Appreciation Tax and Land Use Tax in Cities and Towns” (國家稅務總局關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知) on August 5, 2004. The aforesaid notices point out that the administration work in relation to the collection of land appreciation tax should be further strengthened. The preferential policy of Land Appreciation Tax exemption for first time transfer of properties under real estate development contracts signed before January 1, 1994 is expired and such tax shall be levied again. Where such taxes were still not levied, the situation should be corrected immediately. Also, the notice required that the system of tax declaration and tax sources registration in relation to the land appreciation tax should be further improved and perfected.

On March 2, 2006, the MOF and State Administration of Taxation issued the “Notice of Certain Issues Regarding Land Appreciation Tax” (關於土地增值稅若干問題的通知). The notice clarifies the relevant issues regarding land appreciation tax as follows:

- (a) As to the Tax Collection and Exemption in the Sale of Ordinary Standard Residential Properties Built by Taxpayer

The notice sets out the recognised standards for ordinary standard residential properties. Where any developers build ordinary standard residential properties as well as other commercial properties, the value of land appreciation shall be assessed separately. In respect of ordinary standard residential properties for which application for tax exemption has been filed with the tax authority at the locality of the real estate before the notice is issued and for which land appreciation tax exemption has been granted by the tax authority on the basis of the standards of ordinary residential properties originally set down by the people’s government of the province, autonomous region or municipality directly under the Central Government, no adjustment shall be retroactively made.

- (b) As to the Advance Collection of Land Appreciation Tax as well as the Settlement

- All regions shall further improve the measures for the advance collection of land appreciation tax, and decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the level of value appreciation in the real estate industry and market conditions within the region and on the basis of the specific property categories, namely, ordinary standard residential properties, non-ordinary standard residential properties

and commercial properties. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up.

- If any tax pre-payment is not paid within the advance collection period, an overdue fines shall be imposed additionally as of the day following the expiration of the prescribed advance collection period, according to the relevant provisions of the Tax Collection and Administration Law and its detailed rules for implementation.
- As to any real estate project that has been completed and gone through the acceptance as well, where the floor area of the real estate as transferred makes up 85% or more in the salable floor area, the tax authority may require the relevant taxpayer to conduct the settlement of land appreciation tax on the transferred real estate according to the matching principles regarding the proportion between the income as generated from the transfer of real estate and the amount under the item of deduction. The specific method of settlement shall be prescribed by the local tax authority of a province, autonomous region, municipality directly under the Central Government, or a city under separate state planning.

On February 1, 2007, the Circular on Questions Concerning the Management of the Settlement of Land Value-added Tax on Real Estate Developers (國家稅務總局關於房地產開發企業土地增值稅清算管理有關問題的通知), or the Circular, issued by the State Administration of Taxation took effect. The Circular sets out detailed requirements for the clearance and collection of LAT aimed at tightening the collection of LAT that can range up to 60 percent on real estate enterprises' net gains.

On May 12, 2009, the State Administration of Taxation issued the Administrative Rules on the Settlement of Land Appreciation Tax (土地增值稅清算管理規程) effective on June 1, 2009, which further clarifies the specific conditions and procedures for the settlement of LAT. In May 2010, the State Administration of Taxation issued the Circular on Settlement of Land Appreciation Tax (國家稅務總局關於土地增值稅清算有關問題的通知) to strengthen the settlement of LAT. The circular clarifies certain issues with respect to the calculation and settlement of LAT, such as (i) the recognition of the revenue upon the settlement of LAT; and (ii) the deduction of fees incurred in connection with the property development. In May 2010, the State Administration of Taxation issued the Notice on Strengthening the Collection of Land Appreciation Tax (國家稅務總局關於加強土地增值稅徵管工作的通知), which requires that the minimum LAT prepayment rate shall be 2% for provinces in the eastern region of China, 1.5% for provinces in the central and northeastern regions, and 1% for provinces in the western region. According to the notice, the local tax bureaus shall determine the applicable LAT prepayment rates based on the property type.

On October 12, 2010, the Shanghai Local Taxation Bureau issued the Announcement of the Shanghai Local Taxation Bureau on Adjustment of Prepayment Measures of Land Appreciation Tax of Residential Development Project (上海市地方稅務局關於調整住宅開發項目土地增值稅預徵辦法的公告), which indicated if average selling price of the residential development projects is lower than the average price of the last year's newly-built commodity housing of the project area, the pre-payment rate of the land appreciation tax is 2%, higher than but not more than 1 times, the pre-payment rate is 3.5%, more than 1 times, the pre-payment rate is 5%.

On March 11, 2011, the Beijing Local Taxation Bureau and the Beijing Municipal Commission of Housing and Urban-Rural Development issued the Announcement of the Beijing Local Taxation Bureau and the Beijing Municipal Commission of Housing and Urban-Rural Development on Taxation Issues Relating to Further Strengthening the Regulation over the Real Estate Market (北京市地方稅務局、北京市住房和城鄉建設委員會關於進一步加強房地產市場調控有關稅收問題的公告), which further clarified Incomes gained by the real estate developer from sales of commodity housing for which pre-sale licensing and confirmation of sale of completed properties are handled after the promulgation hereof shall be subject to a pre-payment rate of 2% to

5% of the expected appreciation rate. A real estate development project with a floor area ratio of less than 1.0 shall be subject to pre-payment of land appreciation tax at a minimum amount of 3% of the sales revenue.

Pursuant to the Circular, a property developer shall settle and clear the Land Appreciation Tax payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable Land Appreciation Tax rates. The Land Appreciation Tax shall be settled for projects approved by the competent authorities; and for projects developed in different stages, the Land Appreciation Tax shall be settled in stages. Land Appreciation Tax must be settled if (1) the property development project has been completed and fully sold; (2) the property developer transfers the whole incomplete development project; or (3) the land-use rights with respect to the project is transferred. In addition, the relevant tax authorities may require the developer to settle the Land Appreciation Tax if any of the following criteria is met: (1) for completed property development projects, the transferred GFA represents more than 85% of total salable GFA, or the proportion represented is less than 85%, but the remaining saleable GFA has been leased out or used by the developer; (2) the project has not been sold out for more than three years after obtaining the sale or pre-sale permit; (3) the developer applies for cancellation of the tax registration without having settled the relevant Land Appreciation Tax; or (4) other conditions stipulated by the provincial tax authorities.

The Notice also indicated that if a property developer satisfies any of the following circumstances, the tax authorities shall levy and collect Land Appreciation Tax as per the levying rate no lower than the pre-payment rate with reference to the bearing rate of Land Appreciation Tax of local enterprises with a similar development scale and income level: (i) failure to maintain account book required by law or administrative regulation; (ii) destroying the account book without authorization or refusing to provide taxation information; (iii) the accounts are in a state of mess or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or amount of deductible items; (iv) failure to go through Land Appreciation Tax settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

On May 19, 2010, the State Administration of Taxation issued the Circular on Relevant Issues of the Settlement of Land Appreciation Tax (國家稅務總局關於土地增值稅清算有關問題的通知), which details the relevant issues concerning the income verification about the settlement of land appreciation tax, and the calculation about exemption issues under certain circumstances.

On May 25, 2010, the State Administration of Taxation promulgated the Notice on Strengthening the Collection of Land Appreciation Tax (國家稅務總局關於加強土地增值稅徵管工作的通知) and imposed further requirements on the collection of Land Appreciation Tax. This notice provides that, except for indemnificatory housing, the minimum Land Appreciation Tax prepayment rate shall be no less than 2% for properties in the eastern region of the PRC, no less than 1.5% for properties in the central or northeast region of the PRC and no less than 1% for properties in the western region of the PRC. The Land Appreciation Tax prepayment rates will be determined by the local authorities based on the different types of properties in the locality.

Deed Tax

Pursuant to the “Interim regulations of the People’s Republic of China on Deed Tax” (Deed tax Pursuant to the “Interim regulations of the People’s Republic of China on Deed Tax” (中華人民共和國契稅暫行條例) enacted by the State Council on July 7, 1997 and enforced on October 1, 1997, the transferee, whether an entity or individual, of the title to a land site or building in the PRC shall have to pay deed tax. The rate of deed tax is 3%-5%. The governments of provinces, autonomous regions and municipalities directly under the central

government may, within the foresaid range, determine and report their effective tax rates to the MOF and the State Administration of Taxation for the record.

On October 22, 2008, the Ministry of Finance, and the State Administration of Taxation jointly announced the Circular on Revising the Tax Expenses of Housing Transactions (關於調整房地產交易環節稅收政策的通知). The Ministry of Finance and the State Administration of Taxation provided that, effective November 1, 2008, the deed tax were temporarily reduced to 1% for individuals who purchase the ordinary residence with a GFA of less than 90 sq.m. floor areas for the first time, and temporarily exempt stamp duty and Land Appreciation Tax for purchase or sales of housing by individuals, as applicable.

On March 9, 2010, the Ministry of Finance, and the State Administration of Taxation further announced the Circular on Deed Tax Policy Relevant to First-time Purchase of Ordinary Residential Premises (關於首次購買普通住房有關契稅政策的通知) which stipulated that for two or more people collectively purchasing common housing with a GFA of less than 90 sq.m., and one or more of the buyers have house purchasing record before. The collective buyers of the captioned common house cannot enjoy the preferential deed tax policy applicable to first time purchaser.

On September 29, 2010, Ministry of Finance, State Administration of Taxation and Ministry of Housing and Urban-rural Development jointly announced the Circular on Revising the Preferential Policies for Deed Tax and Individual Income Tax Relating to Real Property Transactions (關於調整房地產交易環節契稅、個人所得稅優惠政策的通知) which stipulated that deed tax shall be levied at half the applicable rate on an individual who purchases an ordinary residential property that is the only housing belonging to the family (members include the purchaser, his/her spouse and their minor children, the same below), and shall be levied at a reduced rate of 1% on an individual who purchases an ordinary residential property of no larger than 90 square meters that is the only housing belonging to the family. Individuals shall not enjoy the aforesaid preferential policies where the ordinary residential property they purchase fails to meet the above requirements.

Urban Land Use Tax

Pursuant to the “Provisional Regulations of the People’s Republic of China Governing Land Use Tax in Cities and Towns” (中華人民共和國城鎮土地使用稅暫行條例) enacted by the State Council on September 27, 1988 and enforced on November 1, 1988 and amended in December 2006, the land use tax in respect of urban land is levied according to the area of relevant land. The annual tax shall be between RMB0.6 and RMB30 per square metre of urban land collected according to the tax rate determined by local tax authorities. According to the “Notice on Land Use Tax Exemption of Foreign Investment Enterprises and Institutions of Foreign Enterprises in China” (關於外商投資企業和外國企業在華機構的用地不徵收土地使用稅的通知) enacted by the MOF on November 2, 1988 and the “Approval on Land Use Tax Exemption of Foreign Investment Enterprises” (關於對外商投資企業徵收土地使用稅的批覆) issued by the State Administration of Taxation on March 27, 1997, land use fee instead of land use tax shall be collected from a foreign investment enterprise. However, the Provisional Regulations of the People’s Republic of China Governing Land Use Tax in Cities and Towns was revised by the State Council on December 31, 2006. As of January 1, 2007, land use tax shall be collected from foreign investment enterprise. The annual tax shall be between RMB0.6 and RMB30.0 per square metre of urban land.

Buildings Tax

Under the “Interim Regulations of the People’s Republic of China on Buildings Tax (中華人民共和國房產稅暫行條例)” enacted by the State Council on September 15, 1986 and enforced on October 1, 1986, buildings tax shall be 1.2% if it is calculated on the basis of the residual value of a building, and 12% if it is calculated on the basis of the rental.

Real estate tax

In pursuance of the Provisional Regulations of the PRC on Real Estate Tax promulgated by the State Council in September 1986, the real estate tax is 1.2% if it is calculated on basis of the residual value of a building and 12% if it is calculated on the basis of the rental.

On January 27, 2011, the governments of Shanghai and Chongqing issued their respective measures for implementing pilot property tax schemes, which became effective on January 28, 2011.

Under the Shanghai Provisional Rules on the Trial in Collection and Administration of Property Tax on Certain Individual Residential Houses (上海市開展對部份個人住房徵收房產稅試點的暫行辦法), (i) starting on January 28, 2011, Shanghai shall, on a trial basis, levy property taxes on a newly bought second or succeeding house in Shanghai which is purchased by a local resident family and each newly bought house in Shanghai which is purchased by a non-local resident family; (ii) the applicable rate of the property tax is 0.6%, and if the sale price per square meter is below twice of average price for the newly constructed commercial resident properties in last year, the applicable rate of the property tax is 0.4%; (iii) the property tax shall be temporarily payable on the basis of 70% of the transaction value of the taxable house; and (iv) the Shanghai property tax rule provides several measures for tax deduction or exemption, including the rule that if a local resident family's GFA per capita, calculated on the basis of the consolidated living space (including the newly bought house) owned by such family, is not more than 60 sq.m., such family is temporarily exempted from property tax when purchasing a second house or more after January 28, 2011 in Shanghai.

Under the Chongqing Provisional Rules on Collection and Administration of Property Tax of Individual Residential Houses (重慶市關於開展對部份個人住房徵收房產稅試點改革的暫行辦法) issued by the Chongqing government which became effective on January 28, 2011, property tax will be imposed on (i) stand-alone residential properties (such as villas) owned by individuals, (ii) high-end residential properties purchased by individuals on or after January 28, 2011, the sale prices per square meters of which are two or more times of the average price of newly constructed commercial resident properties developed within the nine major districts of Chongqing in the last two years and (iii) the second or further ordinary residential properties purchased on or after January 28, 2011 by non-resident individuals who are not employed in and do not own any enterprise in Chongqing, at rates ranging from 0.5%, 1% or 1.2% of the purchase price of the property. Under above rules in Chongqing, the area for tax deduction or exemption is 180 sq.m. calculated on family basis for the stand-alone residential properties owned by individuals before January 28, 2011, and is 100 sq.m. calculated on family basis for the stand-alone residential properties and high-end residential properties purchased on or after January 28, 2011.

Stamp Duty

Under the "Interim regulations of the People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例)" enacted by the State Council on August 6, 1988 and enforced on October 1, 1988, for property rights transfer instruments, including those in respect of property ownership transfer, the rate of stamp duty shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including real estate title certificates and land use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

Municipal Maintenance Tax

Under the Interim Regulations of the People's Republic of China on Municipal Maintenance Tax (中華人民共和國城市維護建設稅暫行條例) enacted by the State Council on February 8, 1985 and amended on January 8, 2011, any taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county and a town, and 1% for a taxpayer whose

domicile is not in any urban area or county or town. And according to the Notice on Unifying the Municipal Maintenance Tax and Education Surcharge System of Domestic Enterprises, Foreign-Invested Enterprises and Individuals (關於統一內外資企業和個人城市維護建設稅和教育附加制度的通知) issued by the State Council on October 18, 2010, the municipal maintenance tax will become applicable to foreign-invested enterprises as of December 1, 2010.

Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) enacted by the State Council on April 28, 1986 and revised on 7 June 1990 and August 20, 2005, a taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the “Notice of the State Council on Raising Funds for Schools in Rural Areas” (關於籌措農村學校辦學經費的通知) issued by the State Council on December 13, 1984. And according to the Notice on Unifying the Municipal Maintenance Tax and Education Surcharge System of Domestic Enterprises, Foreign-Invested Enterprises and Individuals (關於統一內外資企業和個人城市維護建設稅和教育附加制度的通知) issued by the State Council on October 18, 2010, the municipal maintenance tax will become applicable to foreign-invested enterprises as of December 1, 2010.

FOREIGN INVESTED ENTERPRISES

Overview

The PRC promulgated its first joint venture law in 1979. Since then, a broad range of related laws, administrative rules and regulations have been adopted that provide a framework within which foreign investment activities can be effectively conducted and regulated. The government has encouraged foreign direct investment in order to accelerate the inward flow of foreign capital, technology and management techniques.

Foreign invested enterprises in the PRC, or FIEs, may take a number of forms, including:

- Equity joint ventures;
- Co-operative joint ventures; and
- Wholly foreign-owned enterprises.

Procedures for Establishment of A Joint Venture

The establishment of a joint venture requires the approval of MOFCOM (商務部) (or its delegated authorities). Certain documents including a feasibility study report, joint venture contract and articles of association of joint venture are required to be submitted to MOFCOM or its delegated authorities for approval. Within 30 days after the issue of the approval certificate by MOFCOM, the applicant is required to apply to the State Administration Bureau for Industry and Commerce (“SAIC”) (or its local bureau) for the issue of a business licence. A joint venture entity is formally established on the date its business licence is issued.

Types of Joint Ventures

Sino Foreign Equity Joint Ventures

Equity joint ventures are governed by the Sino-foreign Equity Joint Ventures Law of the PRC (中華人民共和國中外合資經營企業法) (the “Equity Joint Venture Law”) adopted on July 1, 1979 and amended on March 15, 2001 by the NPC and the Implementing Regulations of the Sino-foreign Equity Joint Ventures Law of the PRC (中華人民共和國中外合資經營企業法實施細則) promulgated on September 20, 1983 and amended on July 22, 2001 by the State Council.

Under the Equity Joint Venture Law and its Implementing Regulations, an equity joint venture takes the form of a limited liability company. It is an independent legal person which may independently assume civil obligations, enjoy civil rights and own, use and dispose of its assets. The liability of the joint venture partners is limited to the amount of the registered capital they have respectively agreed to contribute under the joint venture contract. The registered capital must be paid in accordance with the terms and conditions of the joint venture contract and may take the form of cash, the right to the use of the site (場地使用權), capital goods, intellectual property rights and know-how. Transfer of the contribution(s) in the registered capital of a joint venture partner to any other person(s) requires the consent of the other joint venture partner(s) and the approval of the original approval authority.

The total amount of investment of an equity joint venture is the sum of equity capital and working capital required for the scale of its operations and production. The proportion of the investment contributed by a foreign joint venture partner in the registered capital of the joint venture in general shall not be less than 25%. Under the Provisional Regulations Concerning the Ratio of Registered Capital and Total Investment of Sino-foreign Equity Joint Venture (國家工商行政總局關於中外合資經營企業註冊資本與投資總額比例的暫行規定) promulgated by the SAIC on March 1, 1987, the ratios between the amount of registered capital and the amount of total investment are prescribed. For example, where the amounts of total investment is between US\$10 million and US\$30 million, the amount of registered capital must not be less than 40% of total investment, provided that the registered capital shall be no less than US\$5 million if the total investment is less than US\$12.5 million.

The profit, risks and losses of an equity joint venture are shared by the joint venture partners in proportion to their contributions to the registered capital.

The operations of an equity joint venture are regulated by an extensive body of laws and regulations, both national and regional, governing matters such as registration, capital contribution, foreign exchange, accounting, taxation and labour.

Sino Foreign Cooperative Joint Ventures

Cooperative joint ventures are governed by the Sino-foreign Cooperative Joint Ventures Law of the PRC (中華人民共和國中外合作經營企業法) (the “Cooperative Joint Venture Law”) promulgated on April 13, 1988 and amended on October 31, 2000 and the Implementing Rules of the Sino-foreign Cooperative Joint Ventures Law of the PRC (中華人民共和國中外合作經營企業法實施細則) promulgated by MOFTEC on September 4, 1995.

A co-operative joint venture may or may not be registered as an independent legal entity. If a co-operative joint venture is registered as an independent legal person, the joint venture entity will take the form of a limited liability company. The joint venture partners of a co-operative joint venture that has not applied for the status of an independent legal person are required to assume civil liabilities in accordance with the applicable PRC civil law.

Matters relating to the establishment, approval procedures, capital contribution, foreign exchange, accounting, taxation and labour of a co-operative joint venture are substantially the same as those of an equity joint venture.

Under the Cooperative Joint Venture Law and its Implementing Rules, the joint venture partners have a greater degree of flexibility to structure the joint venture arrangements and to determine their respective rights, obligations and liabilities. Profits and losses of a cooperative joint venture may be distributed to and shared by the joint venture partners in such manner as those partners may agree to, instead of in proportion to their respective contribution to the registered capital of the joint venture. In addition, where the cooperative joint venture contract provides for the reversion of all fixed assets of the cooperative joint venture to the local joint venture partner upon the expiry of the term of the joint venture, the joint venture partners may agree in the relevant joint venture contract the mechanism of profit distribution whereby the foreign joint venture partner may have priority in recovering investment during the term of the joint venture.

Management of Joint Ventures

Under the Equity Joint Venture Law and the Cooperative Joint Venture Law, the highest authority of a joint venture is usually vested in its board of directors or a joint managerial institution which a cooperative joint venture may establish instead of the board of directors as its authority according to the contract or the articles of association. There is no requirement under the applicable law for the holding of meetings of joint venture partners.

The powers and functions of the board of directors are generally governed by the provisions of the joint venture contract and the articles of association of the joint venture. Meetings of the board of directors of a joint venture are required to be held at least once every year. In general, major decisions affecting the joint venture (such as development plans, production and business plans, budget, distribution of profits, termination of business and appointment of key personnel) are to be determined by the board directors. The daily operation and management of a joint venture is vested in the management office which has a general manager and several deputy managers who assist the general manager. The general manager and deputy general managers of a joint venture are engaged by its board directors. A general manager is required to act in accordance with the directions and guidance of the board of the directors.

On December 30, 2002, MOFTEC, SAIC, State Administration of Taxation, and SAFE promulgated Circular Concerning Strengthening Management of Approval, Registration, Foreign Exchange, Taxation and Relevant Problems of Foreign-Investment Enterprises (關於加強外商投資企業審批、登記、外匯及稅收管理有關問題的通知). This circular took effect on January 1, 2003 and provides that if the investment proportion of foreign investors is less than 25%, they should apply for examination for approval and registration according to the procedure now required when establishing Foreign-Investment Enterprises. If it passes the examination, the enterprise will be granted a ratification certificate for foreign-investment enterprise which states “foreign investment is less than 25%”. Once the enterprise obtains the registration, it will be granted a business licence for foreign investment enterprise and the words “foreign investment is less than 25%” will be added to the column of “Nature of Enterprise” on such business licence. Such enterprises cannot enjoy the preferential tax policies of foreign-investment enterprises.

Wholly-Foreign-Owned Enterprise

Wholly-foreign-owned enterprises are governed by the Law of the People’s Republic of China on Foreign-funded Enterprises (中華人民共和國外資企業法) promulgated by National People’s Congress on April 12, 1986 and amended on October 31, 2000 and the Rules for the Implementation of the Law of the People’s Republic of China on Foreign-funded Enterprises (中華人民共和國外資企業法實施細則) promulgated by State Council on December 12, 1990 and amended on April 12, 2001.

A wholly-foreign-owned enterprise, or WFOE, is owned completely by one or more foreign investors and does not involve any PRC joint venture parties. WFOEs which meet the conditions for being considered a legal person under PRC law shall acquire the status of a PRC legal person in accordance with PRC law. The establishment of wholly-foreign-owned enterprises is restricted or prohibited in certain specified sectors, such as media, trading companies, banking and telecommunications.

REGULATION OF FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign Currency Exchange

The principal regulations governing foreign currency exchange in the PRC are the Regulations for the Control of Foreign Exchange or the Foreign Exchange Regulations (中華人民共和國外匯管理條例), promulgated by the State Council in January 1996, as amended in August 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 are not freely convertible for expenses of capital, such as direct investment, loans or investments in securities outside the PRC unless the prior approval of the SAFE is obtained.

Under the Foreign Exchange Regulations, foreign-invested enterprises in the PRC may purchase foreign currency for trade and service-related foreign exchange transactions without the approval of the State Administration by providing commercial documents evidencing these transactions. They may also remit foreign currency (subject to a cap approved by the SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC Government authorities, which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign-invested enterprises to purchase and remit foreign currencies in the future. See “Risk factors—Risks relating to the PRC—Restrictions on currency exchange may limit our ability to utilise our turnover effectively.” In addition, foreign exchange transactions involving direct investment, loans and investments in securities outside the PRC are subject to limitations and require approvals from the SAFE.

Dividend Distribution and Remittance

On August 29, 2008, the General Affairs Department of SAFE promulgated the Notice on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises (國家外匯管理局綜合司關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知), or “Circular 142”. Circular 142 regulates the conversion, by a foreign-invested company, of foreign currency into Renminbi by restricting the usage of the converted Renminbi. Circular 142 requires that Renminbi converted from foreign currency-denominated capital of a foreign-invested company 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 unless otherwise specifically provided for in its business scope. In addition, SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency denominated capital of a foreign-invested company. The usage of such Renminbi may not be changed without approval from SAFE, and such Renminbi may not be used to repay Renminbi loans if the proceeds of such loans have not been used for purposes within the company’s approved business scope. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Regulations.

The principal PRC regulations governing the distribution of dividends by our PRC subsidiaries are (i) The Company Law, as amended in 2005 and became effective on January 1, 2006, (ii) The Wholly Foreign-Owned

Enterprise Law (1986), as amended in 2000 and its Implementation Regulation (2001); and (iii) The Chinese-foreign Equity Joint Venture Law (1979), as amended in 1990 and 2001 and its Implementation Regulation (2001).

Under these regulations, WFOEs 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 WFOE in China is required to set aside at least 10% of its post-tax income each year, if any, to fund a reserve fund until the accumulated reserve amounts to 50% of its registered capital. It is also required to set aside funds for the employee bonus and welfare fund from its post-tax income each year at percentages determined at its sole discretion. These reserves are not distributable as cash dividends.

For overseas remittance of the current year's dividends, a WFOE is required, under the Circular on Relevant Questions Concerning the Remittance of Profits, Dividends and Bonuses Out of China Through Designated Foreign Exchange Banks (關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知) which was issued on September 22, 1998 and amended on September 14, 1999, to submit the following documents to a designated foreign exchange bank:

- Proof of tax payment and tax returns (WFOEs enjoying tax reductions or exemptions shall provide certification of tax reduction and exemption issued by the local tax authorities);
- An auditor's report on the profit and dividend situation for the current year issued by an accounting firm;
- The resolution of the board of directors relating to the dividends distribution;
- The foreign investment enterprise's foreign exchange registration certificate;
- The capital verification report issued by an accounting firm; and
- Other documents the SAFE may require.

In addition, for overseas remittance of preceding years' dividends, such WFOE shall appoint an accounting firm to conduct an audit for the year(s) in which the dividend-related profits were generated and shall present the auditor's report to the bank as a required supplemental document.

In the case of foreign investment companies the registered capital of which has not been fully paid up in accordance with the joint venture contract and/or articles of association, the dividends in foreign currency may not be remitted out of the PRC. If there are special circumstances under which the registered capital cannot be contributed within the time limit as specified in the joint venture contract and/or articles of association, the foreign investment company shall apply for approval from the original approving authority. With the approval of the original approving authority and the abovementioned required documents, the dividends in foreign currency shall be remitted out of the PRC in proportion to the registered capital that has actually been contributed.

Shareholder Loan

A shareholder loan made by foreign investors as shareholders to foreign investment enterprises such as cooperative joint ventures, equity joint ventures and WFOEs is regarded as foreign debt in China, which is subject to a number of PRC laws and regulations, including the Foreign Exchange Control Regulations (中華人民共和國外匯管理條例) of 2008, the Interim Measures on Foreign Debts (外債管理暫行辦法) of 2003 or, the Implementing Rules of the Statistical Monitoring of External Debts (外債統計監測實施細則) of 2008, the Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions of 1996 (結匯、售匯及付

匯管理規定) and the Notice of the SAFE in Respect of Perfection of Issues Relating Foreign Debts, dated October 21, 2005 (國家外匯管理局關於完善外債管理有關問題的通知).

Under these regulations, a shareholder loan of a foreign debt nature made to cooperative joint ventures, equity joint ventures and WFOEs does not require the prior approval of the SAFE. However, such foreign debt must be registered with and recorded by the SAFE or its local branch in accordance with relevant PRC laws and regulations.

Our PRC subsidiaries can legally borrow foreign exchange loans up to their borrowing limits, which is to be defined as 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-invested 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. Interest payment, if any, on the loans is subject to a 10% withholding tax.

Pursuant to Article 18 of the Interim Measures, if the foreign exchange debts of our PRC subsidiaries exceed their respective borrowing limits, we are required to apply to the relevant PRC authorities to increase the total investment amount (and registered capital) in order to allow the excess of the foreign exchange debts to be registered with the SAFE.

The procedures for registration of the foreign debt and remittance of foreign currency for related interest, principal and other payments are as follows:

- Within 15 days after the formal execution of a shareholder loan agreement, borrowers shall present relevant documents to the SAFE or its local branch and complete registration procedures and collect a seriatim Foreign Debt Registration Certificate (外債登記證). The submission includes (i) a signed application, (ii) an original and copy of the shareholder loan agreement, (iii) an original and a photocopy of the approval of the shareholder loan by the SAFE, (iv) a completed Form with Information on Execution of Foreign Debt Agreement (外債簽約情況表), (v) Foreign Exchange Registration Certificate for Foreign Investment (外商投資企業外匯登記證), the joint venture contract and/or articles of association relating to establishment of the foreign investment enterprise and a capital verification report, and (vi) any other documents that the SAFE or its local branch may require.

Moreover, in connection with foreign debt registration, it is also required that the registered capital of the related foreign investment enterprise is fully paid up in accordance with the joint venture contract and/or articles of association. The amount of the medium and long-term foreign debts that the foreign investment enterprise has borrowed may not exceed the difference between the total investment as stipulated in the joint venture contract or its articles of association and its registered capital. In principle, the interest rate on foreign loans may not be higher than the interest rate on similar loans in the international financial market; otherwise, the registration could be denied by the relevant administration of foreign exchange.

- When borrowers transfer foreign currency into China pursuant to foreign loan agreements, upon presentation of their Foreign Debt Registration Certificate, they shall open a Foreign Debt Spot Exchange Special Account (外債專用稅匯帳戶) with a bank in the PRC designated or approved by the SAFE.
- When borrowers repay principal and interest, they should make an application to the SAFE or its local branch based on the specified valid vouchers for the issuance of Verification Certificate (核准證) (VA*1*). The submission includes (i) a signed application form (加蓋申請單位公章的業務申請表), (ii) a Foreign Debt Registration Certificate, (iii) a shareholder loan agreement, (iv) notices of

repayment of principal and interest issued by the lender (債人的還本付息通知單), which shall include the total amount of the principal and interest for repayment, amount of the principal to be repaid, the interest rate and the method and period for calculating interest, (v) notification of the transfer into an account of the related portion of the loan and the current foreign currency account statement (該筆貸款資金入帳通知單和現有外匯帳戶對帳單), (vi) proof of tax payment and tax returns for the payment of interest and fees (對外支付利息和費用需提供稅務憑證), and (vii) other documents that the SAFE or its local branch may require.

- The bank which has opened the account for such borrowers shall rely on the Verification Certificate and Foreign Debt Registration Certificate as provided by borrowers and effect payment through the Foreign Debt Spot Exchange Special Account.
- In accordance with the bank payment documentation, borrowers shall record the amount of the payment in a Foreign Debt Variation and Repayment Form (外匯變動回饋表) and file a copy with the SAFE or its local branch that issued the Foreign Debt Registration Certificate.

In accordance with the Notice of the SAFE on Improving the Examination of the Settlement of Foreign Exchange on the Capital Account by Foreign-Invested Enterprises and Administration of the Registration of Their Foreign Debts (關於改進外商投資企業資本項目結匯審核與外債登記管理工作的通知) issued by the SAFE on May 17, 2004, local branches of the SAFE and authorised designated foreign exchange banks shall, when handling the approval of settlement of foreign debts and the formalities for the verification of foreign exchange settlement of the foreign debt capital of foreign investment enterprises and in the case of a single transaction for an amount of more than US\$200,000 which is used for such settlement of foreign exchange, request from the relevant foreign investment enterprise such written instructions of payment regarding the use of the capital for such settlement and make payment directly to the designated recipient.

With regard to payment of small amounts, including payment of salaries, setting aside of reserves or for amounts of foreign exchange settlement capital of US\$200,000 or less, the local branches of the SAFE and authorised designated foreign exchange banks may choose not to request the relevant foreign investment enterprise to provide written payment instructions, but to transfer the foreign exchange settlement capital into the RMB bank account of such foreign investment enterprise. However, the foreign investment enterprise shall provide a detailed list of the uses of the previous foreign exchange settlement capital in connection with the subsequent foreign exchange settlement.

Restrictions on Offshore Funding of PRC Property Developers

On July 10, 2007, the General Affairs Department of SAFE issued the Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment That Have Properly Registered with MOFCOM (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知). The notice stipulates, among other things, (i) that SAFE will no longer process foreign debt registrations or applications for purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained authorization certificates from and registered with MOFCOM on or after June 1, 2007 and (ii) that SAFE will no longer process foreign exchange registrations (or change of such registrations) or applications for sale and purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained approval certificates from local government commerce departments on or after June 1, 2007 but who did not register with MOFCOM. This new regulation restricts the ability of foreign-invested real estate companies to raise funds offshore for the purpose of injecting such funds into the companies by way of shareholder loans.

The Chinese names of the PRC, Barbados, Hong Kong and Macau entities in the corporate chart are as follows:

- | | |
|--------------------------|-----------------------|
| (1) 北京中鴻天房地產有限公司 | (41) 遼寧奧特瑞投資管理諮詢有限公司 |
| (2) 北京紅石建外房地產開發有限公司 | (42) 北京奧瑞達創業投資管理有限公司 |
| (3) 海南紅石實業有限責任公司 | (43) 天津磐石投資管理諮詢有限公司 |
| (4) 海南利騰物業管理有限公司 | (44) 天津布萊吉投資管理諮詢有限公司 |
| (5) 北京紅石新城房地產有限公司 | (45) 北京磐石世紀創業投資管理有限公司 |
| (6) [空項] | (46) 北京慧光世紀創業投資管理有限公司 |
| (7) 北京新石房地產經紀有限公司 | (47) 北京展鵬創業投資管理有限公司 |
| (8) 北京建華置地有限公司 | (48) 北京展鵬世紀投資管理有限公司 |
| (9) 國恒企業發展有限公司 | (49) 欣耀城市建設開發(天津)有限公司 |
| (10) 北京搜候物業管理有限公司 | (50) 上海磐石投資管理有限公司 |
| (11) 北京凱恒房地產有限公司 | (51) 欣實城市建設開發(天津)有限公司 |
| (12) 北京山石房地產有限責任公司 | (52) 捷利欣科技發展(天津)有限公司 |
| (13) 北京搜候房地產有限責任公司 | (53) 天津易科華科技發展有限公司 |
| (14) 北京朝外搜候房地產有限公司 | (54) 搜候(香港)有限公司 |
| (15) 北京開成世紀投資管理有限公司 | (55) 西安大捷電子科技發展有限公司 |
| (16) 上海皓澤投資管理有限公司 | (56) 天津錦石環保技術服務有限公司 |
| (17) 北京開河世紀房地產開發有限公司 | (57) 天津景潤環保技術服務有限公司 |
| (18) 北京成耀世紀房地產開發有限公司 | (58) 西安達盈實業有限公司 |
| (19) 杭州瑞卡投資管理諮詢有限公司 | (59) 星潤實業有限公司 |
| (20) 遼寧北石投資管理諮詢有限公司 | (60) 北京望京搜候房地產有限公司 |
| (21) 北京時新世紀創業投資管理有限公司 | (61) 高銳投資有限公司 |
| (22) 遼寧京石投資管理諮詢有限公司 | (62) 宜通投資有限公司 |
| (23) 北京索圖時代創業投資管理有限公司 | (63) 北京宜潤世紀投資管理諮詢有限公司 |
| (24) 北京輝揚世紀創業投資管理有限公司 | (64) 北京新幕世紀投資管理有限公司 |
| (25) 杭州潤卡投資管理諮詢有限公司 | (65) 頂先有限公司 |
| (26) 杭州凱特卡投資管理諮詢有限公司 | (66) 巨潤(香港)有限公司 |
| (27) 北京索圖世紀投資管理有限公司 | (67) 上海長耀投資管理諮詢有限公司 |
| (28) 上海長馳工程諮詢有限公司 | (68) 上海長吉投資管理諮詢有限公司 |
| (29) 上海長翔工程管理有限公司 | (69) 瑞來投資有限公司 |
| (30) 北京搜創世紀投資管理有限公司 | (70) 上海長浩投資管理諮詢有限公司 |
| (31) 北京錦融物業管理有限公司 | (71) 上海長振投資管理諮詢有限公司 |
| (32) 北京紫色世紀投資管理有限公司 | (72) 上海長巍投資管理諮詢有限公司 |
| (33) 北京千禧房地產開發有限公司 | (73) 上海長殷投資管理諮詢有限公司 |
| (34) 北京搜尚世紀投資管理有限公司 | (74) 瑞天投資有限公司 |
| (35) 北京緣尚世紀投資管理有限公司 | (75) 上海長茂投資管理諮詢有限公司 |
| (36) 北京山泉世紀投資管理有限公司 | (76) 上海長燁投資管理諮詢有限公司 |
| (37) 北京野力房地產開發有限公司 | (77) 上海長歆投資管理諮詢有限公司 |
| (38) 北京明悅世紀房地產開發諮詢有限責任公司 | (78) 永卓越有限公司 |
| (39) 北京堅創世紀工程管理有限責任公司 | (79) 上海長鼎投資管理諮詢有限公司 |
| (40) 遼寧凱特卡投資管理諮詢有限公司 | (80) 上海長昇投資管理諮詢有限公司 |
| | (81) 搜候(上海)投資有限公司 |

- (82) 上海弘聖房地產開發有限公司
- (83) 上海杭鋼嘉傑實業有限公司
- (84) 采港有限公司
- (85) 北京懷瑞投資管理諮詢有限公司
- (86) 采名有限公司
- (87) 北京懷俊投資管理諮詢有限公司
- (88) 上海證大五道口房地產開發有限公司
- (89) 杭州綠城合升投資有限公司
- (90) 上海海之門房地產投資管理有限公司
- (91) 宜彩有限公司
- (92) 宜麗有限公司
- (93) 悅洋有限公司
- (94) 宏正有限公司
- (95) 昇亮投資有限公司
- (96) 上海旭升置業有限公司
- (97) 上海証大外灘國際金融服務中心
置業有限公司
- (98) 保怡投資有限公司
- (99) 上海鼎鼎房地產開發有限公司
- (100) 藍泉II控股有限責任公司
- (101) 北京藍泉物業管理有限公司
- (102) 新金寶有限公司
- (103) 萬琦有限公司
- (104) 柏雅有限公司
- (105) 威灝有限公司
- (106) 千頌有限公司
- (107) 國翔有限公司
- (108) 中鏘有限公司
- (109) 嘉冕有限公司
- (110) 緯福有限公司
- (111) 均迪有限公司
- (112) 上海綠城廣場置業有限公司

BUSINESS

OVERVIEW

We are a leading PRC commercial property developer focused on central Beijing and Shanghai. We have primarily focused on the development and sale of prime office properties and complementary retail and high-end residential and hotel properties. We believe we were one of the early movers and are currently one of the largest participants in the PRC prime office property sector. With over 16 years of history, we have established a broad range of capabilities in developing, selling, leasing and managing prime office and retail properties. We believe our “SOHO China” brand is one of the most recognizable brands in China. We work with leading international architects to bring innovative designs to China, and aim to create lasting architectural landmarks with our developments. We were named one of the “Most Admired Companies” in China by *Fortune* magazine (China edition) six times from 2006 to 2012. Mr. Pan Shiyi and Ms. Zhang Xin, who are our co-founders and currently our chairman and chief executive officer, respectively, are among the most well-known leaders in the PRC real estate industry.

Since our founding in 1995, we have focused developments in central Beijing. We believe we are one of the largest prime office property managers in Beijing. Since 2009, we have successfully expanded into and established our presence in Shanghai, through the acquisition or development of a total of 11 projects. We believe we are the largest private land owner on the Bund in Shanghai. Except one completed and substantially sold-out resort project in Bo’ao, Hainan Province, all of our developments to date have been in Beijing or Shanghai. As of September 30, 2012, we had completed development of 14 projects and had four projects under development in Beijing, with a total completed GFA of 2.5 million sq.m., and we had completed development of three projects and had eight projects under development in Shanghai, with a total completed GFA of 281,000 sq.m. We intend to continue to focus on central Beijing and Shanghai in the foreseeable future, because we believe Beijing and Shanghai are and will remain leaders in the PRC prime office property sector with substantially higher rents and lower vacancies than other cities in China, according to publicly available market research reports. See “Industry Overview.” Furthermore, we attach great importance to site selection in central Beijing and Shanghai, with an emphasis on prime locations near transportation hubs and iconic sites, as we believe location, in addition to architectural design and quality, is a key factor contributing to the strong demand for our properties and our ability to charge premium rents.

We believe that the supply of prime office properties in central Beijing and Shanghai is finite and the demand for such properties will remain strong in line with China’s economic growth, and therefore expect that prime office rents in central Beijing and Shanghai will increase in the future. We believe that the commercial property sector in the PRC, as compared to the residential property sector, is less affected by government policies curbing price increases or otherwise imposing restrictions. In order to retain more of such expected growing value in properties we develop, we are gradually changing our “build-to-sell” business model to a “build-to-hold” business model and increasing our proportion of investment properties. We believe the “build-to-hold” business model will enable us to enjoy stable recurring income appreciating in line with economic growth as well as capital asset appreciation driven by our investment property portfolio. As of September 30, 2012, we held two completed investment property projects with a total GFA attributable to us of approximately 90,000 sq.m. As of the same date, we had 11 properties under development that we intend to hold in whole or in part as investment properties, with a total planned GFA attributable to us of approximately 1.6 million sq.m.

In addition, we believe our strong track record in leasing and property management has prepared us well as we become a larger landlord in the PRC prime office property sector. Our experienced leasing team is responsible for procuring tenants for all the investment properties we hold and substantially all the properties we developed and sold to our customers when the properties were sold. Similarly, we manage all of the investment

properties we lease to our tenants, as well as substantially of the properties we developed and sold. As of September 30, 2012, we had an aggregate GFA of approximately 2.3 million sq.m. under our management.

As of September 30, 2012, we had 15 current development projects, including five in Beijing and 10 in Shanghai. As of the same date, these projects had an aggregate total planned GFA of approximately 2.9 million sq.m., including 0.3 million sq.m. completed and 2.6 million sq.m. under development.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our turnover was RMB7,413.5 million, RMB18,215.1 million, RMB5,684.8 million (US\$894.8 million) and RMB1,222.4 million (US\$192.4 million), respectively. For the same periods, our net profit for the year/period was RMB3,394.7 million, RMB3,771.6 million, RMB4,486.4 million (US\$706.2 million) and RMB642.7 million (US\$101.2 million), respectively. As of December 31, 2009, 2010 and 2011 and June 30, 2012, we had cash and cash equivalent of RMB9,241.9 million, RMB17,724.9 million, RMB11,906.2 million (US\$1,874.1 million) and RMB5,873.3 million (US\$924.5 million), respectively.

OUR COMPETITIVE STRENGTHS

We consider our core competitive strengths to be as follows:

High-quality property projects located in prime locations in Beijing and Shanghai

We believe our core strength lies in our high-quality property projects located in prime locations such as those in or near business centers or iconic sites in Beijing and Shanghai. Galaxy SOHO, located on the East Second Ring Road in central Beijing and designed by internationally renowned Zaha Hadid Architects, is one of our key office and retail development properties in Beijing this year. In Shanghai, our Bund SOHO is on the premium strip of the Bund, next to Shanghai's famous City God Temple and beside the Bund's multi-modal transportation hub and yacht piers. We believe we are viewed in the market as a developer committed to distinctive and innovative architectural design and high quality, and we have won numerous awards for our value and commitment. For example, we were the winner of "Good Design Is Good Business China Awards 2012" by Architectural Record, and our Commune by the Great Wall was named "A New Architectural Wonder of China" by *Business Week* in 2005. We believe our high-quality and prime location projects help us differentiate ourselves from competitors.

Proven track record and execution capabilities

We have a strong track record of profitability and project execution from property development to property leasing and management. Historically, we have sought to maximize the return on our investments by selling a substantial majority of our developments, which we believe enabled us to derive higher returns and provided us with strong liquidity. Our gross margin for 2009, 2010 and 2011 and the six months ended June 30, 2012 was 52.0%, 50.8%, 48.0% and 47.6%, respectively. Our management has demonstrated strong execution capabilities in site selection, design and financing of our developments. As of September 30, 2012, we completed development of a total GFA of approximately 2.8 million sq.m. We also have extensive experience leasing and managing properties we developed, and have generally achieved high occupancy rates for properties we lease and manage.

Strong marketing capability with a well-recognized brand name

We believe that our SOHO China brand distinguishes us from our competitors and adds to our strong marketing capabilities which have provided us with numerous competitive advantages. First, our brand attracts a loyal customer base. Approximately 50% of our pre-sales over the past three years are from repeat purchasers or referral customers. Second, our brand increases our ability to secure land in prime locations in central Beijing

and Shanghai. Our reputation for commercial development expertise has led other developers to approach us for the sale of land in prime locations in central Beijing and Shanghai. Third, our brand reinforces the premium image of our properties derived from their prime locations, innovative design and high quality, and helps drive sales prices and rental demand for our properties. For example, SOHO Century Plaza recorded a rent of RMB270 per sq.m. per month in the second quarter of 2012, as compared to an average rent of RMB243 per sq.m. per month in the Shanghai market.* We believe we have achieved faster rental growth than the average rental growth in the Beijing and Shanghai markets as demonstrated by the rental growth of some of our properties set forth in the table below.

	Fourth Quarter of 2010	Second Quarter of 2012
	RMB per sq.m. per month	
ZhongGuanCun SOHO	126	255
SOHO Nexus Centre	205	360
Sanlitun SOHO	135	222
<i>Beijing Market Average*</i>	188	305
The Exchange SOHO	210	315
<i>Shanghai Market Average*</i>	203	243

The average selling price of our properties sold in 2011 was RMB56,670 per sq.m. We believe that our brand name is a positive factor that customers take into account when making a decision to purchase or lease our properties. We believe we will be able to continue to leverage on the value of our brand.

Strong existing pipeline of investment properties currently under development

We intend to expand our investment property portfolio to generate more stable and recurring earnings from rental income. As of September 30, 2012, we held two investment property projects with a total leasable GFA attributable to us of 72,150 sq.m. and had 11 investment property projects under development with a planned total leasable GFA attributable to us of 1.1 million sq.m. We have also accumulated extensive operational experience in leasing and managing property assets, since we, in addition to leasing and managing our investment properties, also provide leasing services to purchasers when they purchase our properties and manage substantially all of the properties we have developed and sold. We believe our rental income will grow in the coming years as more of our investment properties are completed, which will diversify our revenue sources and improve our revenue stability.

Prudent liquidity management with diversified funding channels

We seek to maintain strict financial discipline in our operations, from land acquisition to construction. As a result, our debt level has been low. Our net gearing ratio, measured as our total bank and other interest-bearing borrowings less cash and bank deposits divided by total attributable equity, as of December 31, 2009, 2010 and 2011 and June 30, 2012 was approximately -13%, -57%, -10% and 20%, respectively. Our effective interest rates on bank loans for 2009, 2010 and 2011 ranged from 2.00%-5.92%, 2.03%-8.05% and 2.15%-7.44%, respectively, which we believe are relatively low in the PRC real estate industry. We have access to multiple funding channels, including onshore and offshore bank loans, including syndicated loans such as our 2011 Credit Facility and 2012 Credit Facility, and capital markets financing, such as our Convertible Bonds offering in 2009.

*Source: Savills 2Q 2012, China Market Update report

As of September 30, 2012, we had total undrawn credit facilities of RMB1,925 million. We believe that maintaining sufficient land reserves for development over a period of three to five years lowers the burden of meeting large sums of land premium payments and decreases our liquidity risk. At the same time, we strive to minimize the time period between acquisition and development of the acquired land, thus assuring our capital will be more efficiently deployed and enhancing returns. For example, we acquired Danling SOHO in December 2010, commenced sales in July 2011 and substantially sold out units we intended for sale within the launching weekend; we commenced pre-sales of Galaxy SOHO in June 2010 and sold more than 80% of saleable GFA by the end of 2010. With RMB9,198.8 million in cash and cash equivalents and bank deposits as of June 30, 2012, before the anticipated proceeds from the offering of the Notes, we believe that we have sufficient cash to support our capital expenditures and our liquidity has and will continue to enable us to take advantage of such opportunities as they arise.

Experienced management team with strong corporate governance

Our management team, led by Mr. Pan Shiyi and Ms. Zhang Xin, has maintained a strong commitment to transparent management and sound corporate governance. For example, we utilize a software system named “building information management” in our operations, which combines project design, procurement, development management and sales. We also adhere to transparent public bidding and live auction processes with respect to our procurement and subcontracting arrangements, which we believe help preserve the integrity of our business activities and contribute to our positive brand and reputation in the industry. Our core management has an average 15 years of experience in the PRC real estate industry, and have worked together in our Company for over 10 years.

OUR STRATEGIES

We aim to continue to grow as a leader in commercial property development in prime locations of central Beijing and Shanghai adopting innovative architectural designs. Our key strategies are set out below:

Strategically shift our business focus from “build-to-sell” to “build-to-hold” and increase our recurring income

As we expect that office rents and capital value of prime office properties will increase in the future as a result of limited office property supply in central Beijing and Shanghai, we are gradually changing our “build-to-sell” business model to a “build-to-hold” business model and increasing our holding of investment properties to capture recurring rental income and long-term capital appreciation. As of September 30, 2012, we held office and retail spaces with a total GFA attributable to us of 90,000 sq.m. as investment properties, and had properties under development that we intend to hold as investment properties in whole or in part, with a total planned GFA attributable to us of 1.6 million sq.m.

Continue to maintain profitability through selection and development of high-quality projects in prime locations

We intend to adhere to our business strategy of evaluating land acquisition opportunities in prime locations of central Beijing and Shanghai to seek high returns. We also intend to make selective acquisitions of projects under development from third parties to shorten the period between investments and return and to expand our team of professional staff to enhance our ability to evaluate such opportunities effectively.

Continue to capitalize on and enhance our brand and customer loyalty by developing high-profile and innovative projects

We believe we have a prestigious brand in China and intend to continue to capitalize on our brand in order to maintain and enlarge our customer base in China, enhance our ability to secure land in prime locations and achieve higher sales prices or rents.

We believe our brand and reputation in the market depend on the distinctiveness and quality of our properties, our ability to identify lifestyle trends and innovative design concepts by working together with nationally and internationally recognized architects (such as Zaha Hadid Architects for our Galaxy SOHO and Wangjing SOHO and Kengo Kuma for our Sanlitun SOHO) and our ability to translate such trends and concepts into commercially successful property development projects. We will continue to collaborate with internationally recognized architects on developing high-profile and innovative projects, focusing on prime office properties complemented by retail and, where applicable, high-end residential space.

We consider each customer a potential repeat customer and a source of future business rather than a party to a single transaction. By selling distinctive products and offering post-sale leasing and re-sale services, we create additional opportunities to strengthen our relationship with our customers and increase the likelihood of repeat sales and referrals.

Continue to exercise financial discipline in our business operations

We aim to maintain an effective and efficient management structure and continue to exercise fiscal prudence in the operation of our business, including continuing our measures to control construction and administration costs. In order to enhance returns and to deploy our capital efficiently while still maintaining sufficient cash reserves for the development of potential projects, we aim to continue our strategy of acquiring land only if the project development can commence within a short period of time.

RECENT DEVELOPMENTS

To support our transition to the “build-to-hold” business model and build up our retail property leasing capability, we announced in May 2012 that we entered into a framework agreement, a leading commercial asset management operator in the PRC with experience cooperating with many international brands and companies, to establish a joint venture with INSITE Asset Management Group Ltd., a leading commercial asset management operator in the PRC with experience cooperating with many international brands and companies, to establish a joint venture for the purpose of providing high-quality commercial operation and management services to our commercial projects. The framework agreement contemplates the establishment of a 50%-50% equity joint venture company, and with respect to each commercial project of ours to be managed by the joint venture, the joint venture company will enter into a separate management contract with the relevant project company. As of September 30, 2012, the joint venture company was formed and we continued to have discussions with our joint venture partner with regard to potential management contracts.

OVERVIEW OF OUR PROPERTY DEVELOPMENTS

As of September 30, 2012, we had 15 current projects, including five projects in Beijing and 10 projects in Shanghai, with an aggregate total GFA of approximately 2.9 million sq.m.

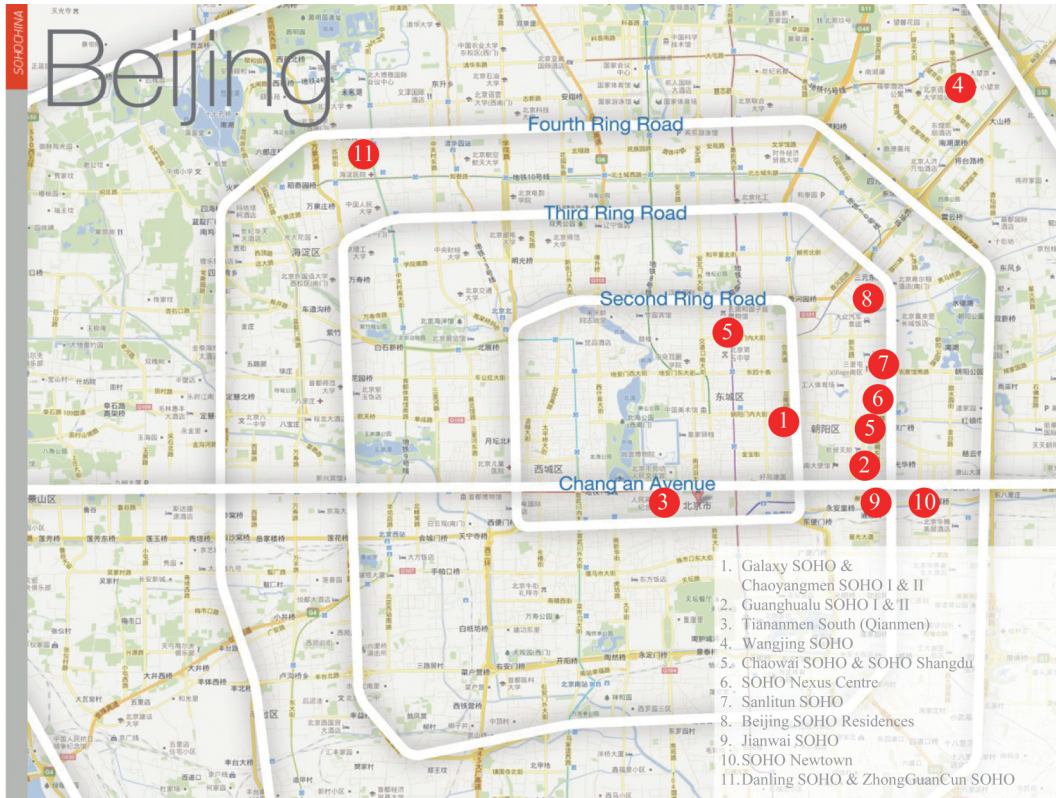
The following table summarizes certain details of our 15 current projects as of September 30, 2012:

Project	Location	Type	Total GFA completed	Total GFA under development	Total planned GFA	Property interest attributable to us	Planned saleable/leasable GFA attributable to us			Completion/Expected completion
							Total	Held for sale	Held for investment	
			(sq.m.)	(sq.m.)	(sq.m.)	(%)	(sq.m.)	(sq.m.)	(sq.m.)	
Completed Projects										
Commune by the Great Wall	Beijing	Hotel	30,714	–	30,714	95%	29,178	–	29,178	2006
SOHO Zhongshan Plaza	Shanghai	Retail, office	142,000	–	142,000	100%	112,863	112,863	–	2011
SOHO Century Plaza	Shanghai	Retail, office	59,000	–	59,000	100%	42,972	–	42,972	2012
Projects under Development										
Galaxy SOHO ⁽¹⁾	Beijing	Retail, office	–	330,000	330,000	100%	258,000	224,693	33,307	2012
Tiananmen South (Qianmen)	Beijing	Retail	36,800	17,900	54,700	100%	54,700	–	54,700	2012
Wangjing SOHO	Beijing	Retail, office	–	520,000	520,000	100%	402,784	268,523	134,261	2014
Guanghualu SOHO II.	Beijing	Retail, office	–	167,000	167,000	100%	93,890	–	93,890	2014
Sky SOHO	Shanghai	Retail, office	–	350,000	350,000	100%	234,003	–	234,003	2013
SOHO Fuxing Plaza	Shanghai	Retail, office	–	137,000	137,000	100%	86,620	–	86,620	2013
Bund SOHO	Shanghai	Retail, office	–	189,000	189,000	61.506%	72,927	–	72,927	2014
Hongkou SOHO	Shanghai	Retail, office	–	97,000	97,000	100%	66,833	–	66,833	2014
SOHO Jing'an Plaza ⁽²⁾	Shanghai	Residential, retail, office	–	81,000	81,000	100%	57,137	57,137	–	2015
SOHO Hailun Plaza	Shanghai	Retail, office	–	152,000	152,000	100%	116,132	–	116,132	2015
Bund 8-1 Land.	Shanghai	Retail, office, financial, art, culture	–	423,000	423,000	50%	145,486	–	145,486	2015
SOHO Tianshan Plaza	Shanghai	Retail, office, hotel	–	172,000	172,000	100%	101,673	37,517	64,156	2015
Total			<u>268,514</u>	<u>2,635,900</u>	<u>2,904,414</u>		<u>1,875,198</u>	<u>700,733</u>	<u>1,174,465</u>	

(1) Completed as of the date of this offering memorandum.

(2) Pursuant to the relevant acquisition agreement, we will acquire the land use right of SOHO Jing'an Plaza and the construction-in-progress of the project upon satisfaction of the legal and regulatory conditions for the transfer of construction-in-progress of the project.

OUR PROJECTS



Details of our projects are as follows:

Historical Properties

Historically, we have completed a number of developments for sale in Beijing, Shanghai and Hainan Province with respect to which saleable units have been substantially sold out. These developments include SOHO Newtown, Jianwai SOHO, SOHO Shangdu, Chaowai SOHO, Beijing SOHO Residences, Guanghualu SOHO, ZhongGuanCun SOHO, Sanlitun SOHO, Chaoyangmen SOHO, SOHO Nexus Centre, Danling SOHO, The Exchange-SOHO and Bo'ao Canal Village.

The following table sets forth key dates for our historical properties:

Property	Completion	Total GFA (sq.m.)	Occupancy rate ⁽²⁾	Substantially sold-out date ⁽¹⁾
SOHO Newtown	November 2001	471,300	N.A. ⁽³⁾	December 2001
Jianwai SOHO	September 2007	683,821	98.9%	September 2005
SOHO Shangdu	July 2007	170,672	96.2%	December 2006
Chaowai SOHO	October 2007	150,278	93.2%	December 2007
Beijing SOHO Residences . . .	October 2008	66,618	N.A.	December 2010
Guanghualu SOHO	November 2008	75,798	98.3%	December 2008
ZhongGuanCun SOHO	November 2009	59,060	N.A.	December 2011
Sanlitun SOHO	May 2010	465,371	92.3%	December 2009
Chaoyangmen SOHO	December 2009	113,075	98.9%	December 2009
SOHO Nexus Centre	December 2010	103,340	N.A.	June 2010
Danling SOHO	November 2011	42,638	N.A.	August 2011
The Exchange-SOHO	April 2010	80,000	N.A.	December 2011
Bo'ao Canal Village	December 2010	36,561	N.A.	June 2010

Notes:

- (1) When 90% of the saleable units of a property are sold out.
- (2) Occupancy rate as of June 30, 2012 for commercial properties with operations of over 3 years.
- (3) SOHO Newtown is not managed by the Company.

Current Development Projects – Completed Projects

Beijing

Commune by the Great Wall

Commune by the Great Wall, a boutique hotel located beside the Great Wall, is considered by us to be a showcase project. It has a total GFA of approximately 30,714 sq.m. Phase I comprises 11 unique villas, each of which was designed by a renowned Asian architect, and one clubhouse. Phase II comprises 32 additional villas, a conference center with two restaurants, a spa operated by Anantara and a children's club. Commune by the Great Wall was named "A New Architectural Wonder of China" by Business Week in 2005, and was the only

hotel in mainland China listed on the Condé Nast Traveller's "100 Hot Hotels in the World" in 2004. We intend to hold Commune by the Great Wall for recurring hotel income.

Shanghai

SOHO Zhongshan Plaza

SOHO Zhongshan Plaza is a mixed office and retail property located on Zhongshan Road West, Changning District, Shanghai. Situated in the heart of Hongqiao commercial district, it is only about two kilometers from Xujiahui and Zhongshan Park commercial districts and about eight kilometers from the Shanghai Hongqiao transportation hub which is the convergence point of modern transportations such as airplane, high-speed railway and subway. We acquired and commenced sale of SOHO Zhongshan Plaza in 2011. It comprises two buildings with a total GFA of 142,000 sq.m. and total saleable GFA of 112,863 sq.m, including 100,199 sq.m. of office space and approximately 12,664 sq.m. of retail space. As of September 25, 2012, approximately 53% of the total saleable GFA (excluding car parks) had been sold, with an average selling price of RMB42,563 per sq.m.

SOHO Century Plaza

SOHO Century Plaza, formerly known as Jia Rui International Plaza, was acquired by us in August 2011. SOHO Century Plaza is situated on Century Avenue of Pudong District in Shanghai, close to the Lujiazui financial district and approximately three kilometers from Jin Mao Tower and Oriental Pearl TV Tower. SOHO Century Plaza is conveniently accessible through metro networks and road systems. It is within eight minutes' walking distance to Century Avenue Station, the interchange station for metro lines 2, 4, 6 and 9. We intend to hold SOHO Century Plaza as an investment property, which has a total leasable GFA of approximately 42,972 sq.m., including approximately 42,540 sq.m. of above-ground GFA for offices and approximately 432 sq.m. of aboveground GFA for retail use. SOHO Century Plaza was fully completed in 2012.

Current Development Projects – Projects Under Development

Beijing

Galaxy SOHO

Galaxy SOHO is a mix of office and retail space designed by Zaha Hadid Architects, with a total GFA of approximately 330,000 sq.m. It is located on the East Second Ring Road in central Beijing. We launched the pre-sale of Galaxy SOHO on June 26, 2010. Galaxy SOHO is completed as of the date of this offering memorandum, and we have sold out approximately 90% of the project including 94% of the office space. We have decided to retain the remaining portion of Galaxy SOHO as an investment property, with a total leasable GFA of 33,307 sq.m. from Galaxy SOHO, in order to benefit from long-term asset appreciation and recurring income.

Tiananmen South (Qianmen)

Tiananmen South (Qianmen) is located in the Qianmen area immediately south of Tiananmen Square within one of the largest hutong (traditional Beijing lanes) conservation areas in Beijing. We have the right under certain restructuring agreements to acquire a total saleable floor area of not less than 54,691 sq.m. of retail properties. The Phase I of approximately 22,763 sq.m. was fully completed and is located on Qianmen Avenue.

The Phase II of 31,928 sq.m. is located on the east side of Qianmen Avenue, of which 14,084 sq.m. has been completed, and the remaining is expected to be completed in 2012. We intend to retain all these retail properties as investment properties.

Wangjing SOHO

Wangjing SOHO, designed by Zaha Hadid Architects, is to comprise three high-rise mixed-use office and commercial buildings and three low-rise commercial buildings, the tallest tower having a height of 200 meters. Wangjing SOHO is expected to be fully completed in 2014. Wangjing SOHO has a total planned GFA of 520,000 sq.m. We intend to sell a portion of Wangjing SOHO, of a planned total saleable GFA of 268,523 sq.m., and retain the remainder as our investment property, of a planned total leasable GFA of 134,261 sq.m. The pre-sale of Wangjing SOHO commenced in August 2011. As of September 25, 2012, 46.3% of the saleable area had been sold, with an average sales price of RMB51,101 per sq.m.

Guanghualu SOHO II

Guanghualu SOHO II, which we expect to complete in 2014, is a mixed office and retail property located in the Beijing CBD opposite our Guanghualu SOHO project, with a planned total GFA of approximately 167,000 sq.m. We intend to hold Guanghualu SOHO II as our investment property, with a planned leasable GFA of 93,890 sq.m.

Shanghai

Sky SOHO

Sky SOHO, which we expect to complete in 2013, is a mixed office and retail property located in Shanghai Hongqiao Linkong Economic Zone next to the Shanghai Hongqiao transportation hub, which is the convergence point of modern transportations such as airplane, high-speed railway and metro. It has a planned total GFA of approximately 350,000 sq.m. We currently intend to hold Sky SOHO as our investment property, with a planned leasable GFA of 234,003 sq.m.

SOHO Fuxing Plaza

SOHO Fuxing Plaza, which we expect to complete in 2013, is a mixed office and retail property located on Huai Hai Road Central, one of the most vibrant and cosmopolitan commercial streets in Shanghai, with direct access to metro lines 10 and 13 (under construction). It has a planned total GFA of approximately 137,000 sq.m. We intend to hold SOHO Fuxing Plaza as our investment property, with a planned leasable GFA of 86,620 sq.m.

Bund SOHO

Bund SOHO is on the premium strip of the Bund, next to Shanghai's famous City God Temple and beside the Bund's multi-dimensional transportation hub and yacht piers. The mixed office and retail property has a planned total GFA of approximately 189,000 sq.m., expected to be fully completed by 2014. We acquired, in 2010, and consequently hold a 61.506% interest in the project. We intend to hold Bund SOHO as our investment property, with a planned leasable GFA of 72,927 sq.m.

Hongkou SOHO

Hongkou SOHO, which we expect to complete in 2014, is a mixed office and retail property located in the most developed area of the Sichuan North Road commercial district, one of the three largest commercial districts in Shanghai. It is situated at Sichuan North Road Station on metro line 10 and is within 300 meters from Baoshan Road Station, the interchange station for metro lines 3 and 4. We intend to hold Hongkou SOHO as our investment property, with a planned saleable GFA of approximately 66,833 sq.m., including approximately 60,194 sq.m. of above ground office and approximately 6,639 sq.m. of above ground and underground retail area.

SOHO Jing'an Plaza

SOHO Jing'an Plaza, which we expect to complete in 2015, is a mixed office, retail and residential property located next to the Chang Shou Lu commercial street at the Caojiadu commercial area of Jing'an District in Shanghai. It is surrounded by metro lines 2, 3, 7 and 11 and expected to be served by lines 13 and 14 in the future. We intend to sell all of SOHO Jing'an Plaza, which has a planned total GFA of 81,000 sq. m. and a planned saleable GFA of 57,137 sq.m.

SOHO Hailun Plaza

SOHO Hailun Plaza, which we expect to complete in 2015, is a mixed office and retail property located in the center of Hongkou District, Shanghai and at the convergence point for metro lines 4 and 10. It is in close proximity to the Sichuan North Road business district and within 2.5 kilometers from the city center, the People's Square, and about six minutes away from Lujiazui in Pudong and the Bund. It has a total planned GFA of approximately 152,000 sq.m. We intend to hold SOHO Hailun Plaza as our investment property, with a planned leasable GFA of 116,132 sq.m.

Bund 8-1 Land

The Bund 8-1 Land is located between Yuyuan Garden and the Shiliupu Expo water gate in Shanghai's Huangpu District, in close proximity to Shanghai Bund transportation hub and our Bund SOHO project. We hold an indirect 50% interest of Shanghai Haizhimen, which indirectly holds the interest of the Bund 8-1 Land through an acquisition we made in December 2011. The project has a total planned GFA of 423,000 sq.m. and is expected to be completed in 2015. We intend to hold Bund 8-1 Land as our investment property, with a planned leasable GFA of approximately 145,486 sq.m.

We are currently involved in certain legal proceedings in a PRC court in relation to our acquisition of interest in the Bund 8-1 Land, as described in further detail in "Risk Factors—Risks Relating to Our Business—We may be involved in legal and other proceedings arising out of our operations from time to time and may incur substantial losses and face significant liabilities as a result" and "Business—Legal Proceedings" in this offering memorandum.

SOHO Tianshan Plaza

SOHO Tianshan Plaza is a mixed office, retail and hotel property located at a prime location of the Hongqiao Foreign Trade Center, expected to be completed in 2015. We acquired the project in April 2012 for a total consideration of approximately RMB2.1 billion. The project has a planned total GFA of 172,000 sq.m. We intend to hold a portion of SOHO Tianshan Plaza as investment property, with a planned leasable GFA of 64,156 sq.m., and sell the remainder, with a planned saleable GFA of 37,517 sq.m.

INVESTMENT PROPERTIES

Our portfolio of investment properties includes commercial and office properties. Such properties are held and managed by us in order to provide us with recurring rental income as well as for capital appreciation potentials. The table below summarizes certain key facts of the development of our investment properties as of September 30, 2012:

Projects	Cities	Total attributable GFA ⁽¹⁾ (sq.m.) ⁽²⁾	Total (planned) attributable leasable GFA (sq.m.)	Completion/ Planned completion
Completed Projects				
Commune by the Great Wall ⁽³⁾	Beijing	31,000	29,178	2006
SOHO Century Plaza	Shanghai	59,000	42,972	2012
		90,000	72,150	
Projects under Development				
Galaxy SOHO ⁽⁴⁾ & Chaoyangmen SOHO.	Beijing	45,000	44,826	2012
Tiananmen South (Qianmen)	Beijing	55,000	54,700	2012
Wangjing SOHO (Tower 3)	Beijing	180,000	134,261	2014
Guanghualu SOHO II.	Beijing	134,000	93,890	2014
Sky SOHO	Shanghai	350,000	234,003	2013
SOHO Fuxing Plaza	Shanghai	137,000	86,620	2013
Bund SOHO	Shanghai	118,000	72,927	2014
Hongkou SOHO	Shanghai	97,000	66,833	2014
SOHO Hailun Plaza	Shanghai	152,000	116,132	2015
Bund 8-1 Land	Shanghai	211,000	145,486	2015
SOHO Tianshan Plaza	Shanghai	108,000	82,773	2015
		1,587,000	1,132,451	
Total		1,677,000	1,204,601	

Notes:

- (1) Of portions of the projects that we intend to hold as investment properties only.
- (2) Rounded to thousands of sq.m.
- (3) This project is included in the property and equipment of the Group and the Group earns rental from serviced apartment operation of the project.
- (4) Completed as of the date as this offering memorandum.

PROJECT DEVELOPMENT

In developing a project, we follow a process of planning and execution that is systematic in approach while being flexible enough to accommodate new developments in the fast-evolving business and regulatory environments of China's property market. Although the nature and sequence of specific planning and execution activities will vary among projects, we summarize below the core elements of our project development process.

Site Assessment

In conjunction with our ongoing market and design research, we identify and evaluate possible sites for new projects. We assess land parcels for use in possible projects based on, amongst other indicators, our analysis of their potential returns. We focus on the development of large-scale prime office, retail and high-end residential properties in central Beijing and Shanghai. Accordingly, the factors we take into account in our site assessment primarily include:

- size and location of the parcel;
- transportation access and infrastructure support;
- applicable zoning regulations; and
- existing and future surrounding developments.

Land and Project Acquisition

We generally acquire land through the following means:

- participating in public tender, auction and listing for sale;
- purchasing government-granted land from developers who may be less experienced than us in developing office and retail properties;
- purchasing completed buildings (and conducting interior and/or exterior renovations as necessary);
- purchasing projects under development from developers with less experience than us in marketing and sales; and
- purchasing distressed projects which have not been completed.

We intend to acquire only vacated land and seek to have the other party that grants or transfers the land to us remain responsible for resettlement in relation to most of our projects.

Permits and Certificates

Once we have obtained the development rights to a parcel of land, we are required to pay land premium in accordance with relevant laws and regulations, in particular The Notice Concerning the Further Strengthening of the Administration on Levy of Land Premium for Granted Land Use Right to State-Owned Land issued collectively by the Beijing Municipal Planning Committee, Beijing Municipal Finance Bureau, Beijing Municipal Land Bureau, and Beijing Municipal Land Resources and Buildings Administration Bureau in 1994. As part of the development process, a number of certificates, permits and licenses must be obtained from the PRC Government, including:

- land use right certificate, which is a transferable certification of the right of a party to use a parcel of land;

- construction land planning permit, which is a permit authorizing a developer to begin the survey, planning and design of a parcel of land;
- construction works planning permit, which is a certificate indicating government approval for a developer's overall planning and design of the project and allowing a developer to apply for a Work Commencement Permit;
- work commencement permit, which is a permit required for commencement of construction; and
- pre-sale permit, which is a permit authorizing a developer to start the pre-sale of property still under construction.

Regulations issued by the Beijing government on June 26, 2002 generally prohibit the grant of land use rights with respect to state-owned land via negotiation and require such transfers to occur through public tender, auction or listing-for-sale.

Design

We continually monitor and participate in dialogues on trends in architecture and real estate development, both in China and abroad. We regard our participation in discussions on the direction and prospects of our industry as critical for project planning purposes.

With a view to bringing innovative design perspectives to our projects and increasing our profile generally, after we purchase a parcel of land for development, we typically invite three to five architects (depending on the size of development) to tender via a concept-design competition. We analyze architectural concepts and ideas with a view to determining whether they can be translated into commercially viable projects. We set out the design criteria in light of the market demand and the functional requirements, such as the ratio of office and retail space, in order to maximise return.

The winner of the tender works closely with our in-house design team to translate the overall design concept into detailed design and engineering maps. At the same time, we select a domestic design institute that works with the outside architects and our in-house design team to produce the documentation for implementing the design and engineering maps, which form a basis for bidding by contractors.

At the construction stage, our outside architects and in-house design team works closely to assist our project engineers to provide continuous on-site supervision and project management. Our goal is to ensure that construction progresses according to the design and remains on schedule, within budget and at a satisfactory level of quality.

Subcontracting

For each phase of a project we seek to encourage fair competition via a transparent bidding process where we invite contractors to tender bids according to their reputation for quality, track record and references in order to ensure both high quality and cost competitiveness. We preselect a number of general contractors to bid for our contracts based on the quality of their bids. Subsequently, the winning bidder is selected based on a pre-determined formula that takes into account both the quality and price quoted by the bidder. Upon selection, a general contractor enters into a construction contract with us. Our construction contracts are typically fixed-price contracts that provide for periodic payments during construction. We generally retain a small portion of the contract price for up to 24 months after completion of work. A total of RMB22.2 million, RMB273.7 million, RMB276.7 million (US\$43.6 million) and RMB223.1 million (US\$35.1 million) was held by us as

retention monies as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. The construction contracts typically include terms relating to the construction schedule and construction quality.

In our standard subcontracts, we make a prepayment of between 10% to 30% of the contract sum before the commencement of construction work. Subsequent payments are made on a monthly basis. The amount to be paid is 90% of the value of the work carried out in that month (subject to minor adjustment). When the total amount paid, including the prepayment, reaches 90% of the contract sum, further payments are suspended until completion of the subcontract. We retain 5% of the total contract sum for approximately 2 years after completion of the subcontract as security for the correction of construction defects. For other suppliers, the normal credit terms are generally between two to three months. Under the terms of most of our construction contracts, the construction contractors are responsible for the wages of construction workers and procuring construction materials for our property development and bear the risk of fluctuations in wages and construction material prices during the term of the relevant contract.

Monitoring and Supervision

Time control. To monitor progress of the construction, we compile a master plan which sets out the scope and timing of each construction contract. A weekly meeting is held during the construction period, in which all our main contractors and their subcontractors participate. The master plan is adjusted in light of any delay reported by the contractors with a view to ensuring the overall project can still be finished on time. We have consistently completed and delivered properties to our customers on or before the deadlines set out in the pre-sales contracts while maintaining the quality of the developments and keeping our construction costs within our budget by strictly complying with our project development procedures.

Quality control. We exercise on-site inspection and supervision on a day-to-day basis to ensure quality of materials and workmanship. We are also typically responsible for procuring specialized building materials, such as windows, doors and interior fixtures, while the general contractors are responsible for procuring most basic building materials, such as cement and steel. The general contractors procure all equipment necessary for each project in accordance with specifications provided by us. We do not own construction equipment and do not maintain any inventory of building materials. The general contractors are required by law to provide us with warranties for any losses we incur as a result of construction not being completed on schedule or not meeting contractually or statutorily specified quality standards.

In addition, we seek to ensure that our projects meet our design specifications. As a result of our efforts, none of our completed property developments has been found to have exceeded the amount of GFA originally authorized in the relevant land grant contracts or construction permit or to contain built-up areas that are not in conformity with the plan authorized by the construction permit.

Cost control. For each project we prepare a master budget which requires approval by our chairman. We have built in a working platform in our computer system which gives a detailed analysis of the costs incurred, including comparison with the master budget. If the master budget is likely to exceed the initial approved budget, prior approval from senior management must be obtained. Our cost control mechanism in selecting our general contractors is described in “—Subcontracting” above.

Marketing

Our promotional and sales activities are conducted through the coordinated efforts of our public relations and marketing and sales departments. We have a dedicated team in the sales and marketing department that conducts detailed analysis of market conditions and formulates unit prices and pricing-related policies for our projects. In addition, as part of our efforts to manage our public profile, our public relations and marketing department oversees our communications to the media and produces specialized promotional materials. Our approach to marketing consists of two aspects: brand-name marketing and products marketing.

We recognize the importance of brand name promotion in delivering higher sales volume and profit margin. Accordingly, we actively promote the brand of “SOHO China” by seeking to capitalize on the personal profiles of Mr. Pan Shiyi and Ms. Zhang Xin. For example, Mr. Pan Shiyi, as a frequent commentator on the real estate industry in China, has created a blog which has become one of the most frequently visited blogs of a PRC entrepreneur hosted on sina.com.cn. As of October 17, 2012, Mr. Pan’s blog had surpassed 12.7 million fans.

In terms of product marketing, we organize advertising activities in order to attract media attention. For each new project, in addition to building showrooms prior to development, we typically organize a major launch party attended by celebrities and the local media in Beijing and Shanghai, followed by a large number of launch events and roadshow activities in our targeted cities in China.

From time to time we also organize auctions for selling our properties which serve two purposes. First, the auctions form part of our marketing campaign for the relevant project. Secondly, and more importantly, the auction outcome is an indicator of the prices of our properties, which helps us determine whether any adjustment to our asking prices is necessary and gives confidence to purchasers and potential customers as to the value of our properties.

Our marketing efforts have established us as a preferred partner in collaborative lifestyle marketing in China for prestigious international brands. Jianwai SOHO and the Commune by the Great Wall have been used as venues for concerts, product launches, photographic shoots and other corporate events by a number of such brands and other corporations. In turn, we believe our collaboration with prestigious international brands further enhances our image among our target customers.

SALES

Our sales teams are currently organized into three levels – sales agents, assistant directors and directors. The assistant directors and the sales agents are consultants without a direct employment relationship with us. Sales agents are assigned to different teams, each of which is led by an assistant director who, in turn, will be supervised by a director. We incentivize our sales teams to perform by creating a competitive environment among them. Additionally, we have a sales and marketing department, which is responsible for providing information on our properties and other sales support to the directors, assistant directors and sale agents.

The performance of the assistant directors and sales agents is assessed each quarter. Those sales agents who have met their pre-determined sales targets have the opportunity to be promoted to the next level. Conversely, their engagement may be terminated if they fail to meet their targets and those assistant directors who fail to meet their targets may be demoted.

LEASING AND RE-SALE SERVICES

We provide a range of post-sales services to our customers, including services to help our customers sell or rent out the units they have purchased from us. A subsidiary of ours, SOHO China Leasing Co., Ltd., was formed to offer leasing services. We have provided such services to our customers to help improve liquidity and returns of customers, therefore encouraging repeat purchases from our customers.

SUPPLIERS AND CUSTOMERS

Our five largest customers accounted for 23.7%, 12.8%, 19.9% and 30.9% of our total sales in 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively.

Generally, all payments for the purchase of our units are made in full by the customers prior to the time of delivery of the property. The customers may choose to make one-off payment or to pay by way of installments. However, we generally require 10% of the purchase price to be paid upon execution of the pre-sale contract, an additional payment up to 85% to 90% of the purchase price (inclusive of the initial payment) within four months thereafter, and any outstanding amount paid on or prior to delivery. For those customers who finance their purchases with mortgage financing, we generally require them to pay a minimum down payment of 50% of the unit purchase price within four months of the execution of the pre-sale contract for both commercial and residential property, and receive the remaining purchase price from the bank with which the purchaser has entered into a mortgage agreement when the relevant property is topped out or completed, which may be one to two years after the execution of the pre-sale contract.

Our principal suppliers are contractors. Our five largest suppliers accounted for approximately 68.1%, 29.0% and 71.6% of our total purchases, excluding land costs, in 2009, 2010 and 2011, and of 75.5% in the six months ended June 30, 2012, respectively. Our single largest supplier in 2011 accounted for 47.5% of our purchases, excluding land costs, compared to 16.0% of our purchases in 2010. For details on our subcontract terms, see “Business—Project Development—Subcontracting.”

None of our Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of our share capital) has any interest in any of the above-mentioned suppliers and customers.

COMPETITION

We believe that the property market in the PRC is highly fragmented. We compete with PRC state-owned, privately owned and international developers, including many leading property developers from or listed in Hong Kong, for land and customers. Nonetheless, we believe that we are one of the few property developers focused on large-scale premium office, properties in prime locations of Beijing and Shanghai. Our ability to attract customers nationwide and from abroad also differentiates us from our competitors. We believe that the prime office market in China has a high barrier to entry with success requiring not only sufficient capital, but also the necessary marketing strategies and skills.

INSURANCE

We maintain insurance policies with insurance companies in the PRC which cover property damage due to natural hazards, including lightning, typhoons, tornadoes, floods, landslides and other natural phenomena, and accidents, including fire and explosion and general liability. As of the date hereof, we have not experienced any significant loss or damage to our properties.

We maintain all-risk insurance coverage for our properties under construction, including those that have been completed and are pending delivery. Such all risk liabilities insurance covers any material losses or damages caused by accident or natural hazard, which includes earthquake, tsunami, lightning, hurricane, typhoons, tornado, storm, rainstorm, floods, hailstones, landslide, snowslide, volcanic eruptions, submergence of ground or any other irresistible natural phenomena with destructive power. There are no mandatory requirements to maintain insurance coverage in the PRC in respect of our property development operations. Since our incorporation, we have not suffered any losses or damages or incurred any liabilities relating to our properties that had a material adverse effect on our business.

We have also contributed to social insurance for our employees as required by the PRC social security regulations such as a pension contribution plan, medical insurance plan, unemployment insurance plan and work-related injury insurance plan.

We believe that our insurance coverage is sufficient for our present purposes and is consistent with coverage for other companies in our industry in China.

ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations as well as environmental regulations promulgated by local governments. As required by PRC laws and regulations, each project developed by a property developer is required to undergo an environmental impact assessment, and an environmental impact assessment report is required to be submitted to the relevant government authorities for approval before commencement of construction. When there is a material change in respect of the construction site, scale or nature of a given project, a new environmental impact assessment report must be submitted for approval. During the course of construction, the property developer must take measures to prevent air pollution, noise emissions and water and waste discharge. In addition, as we contract our construction works to independent third-party contractors and pursuant to the terms of the construction contracts, the contractors and subcontractors are required to comply with the environmental impact assessment and the conditions of the subsequent approval granted by the relevant government authority. During construction, our project directors and project management teams will supervise the implementation of the environmental protection measures. In addition, PRC environmental laws and regulations provide that if a construction project includes environmental facilities (including engineering projects, devices, monitors and other facilities that were constructed or equipped in order to prevent pollution and protect the environment), such facilities will have to pass an inspection by the environmental authorities and an approval must be obtained before the environmental facilities can commence operations. If a construction project does not include any environmental facilities, no such approval is required. Our business is of such a nature that we are not required to construct environmental facilities and, therefore no approval in respect of environmental facilities from the environmental authorities is necessary. We believe that our operations are in compliance with currently applicable national and local environmental and safety laws and regulations in all material respects.

We take pride in being environmentally conscious as a developer. All of our developments since 2009 are certified under the LEED rating system at the gold level for high performance. A variety of strategies are employed in our developments to reduce energy and water consumption and impact on the environment, and high-efficiency filters are installed in the ventilation system to create a healthy indoor environment.

HEALTH AND SAFETY MATTERS

Under PRC laws and regulations, we, as a property developer, have very limited potential liabilities to the workers on and visitors to our construction sites, most of which rest with our contractors.

Under the PRC Construction Law, the construction contractor assumes responsibility for the safety of the construction site. The main contractor will take overall responsibility for the site, and the subcontractors are required to comply with the protective measures adopted by the main contractor. Under the Environmental and Hygienic Standards of Construction Work Site, a contractor is required to adopt effective occupational injury control measures, to provide workers with necessary protective devices and to offer regular physical examinations and training to workers who are exposed to the risk of occupational injuries. To our knowledge, there has been no material non-compliance with the health and safety laws and regulations by our main contractors or subcontractors during the course of their business dealings with the Group.

Our primary obligation as a property developer is, under the Measures on Implementation of Insurance for Accidental Injuries of Construction Workers in Beijing Municipality (for Trial Implementation), to include insurance costs for construction workers into the construction budget. Within seven days after execution of the construction contract, we will make full payment to the contractors of the costs of insuring against accidental injuries to the construction workers. The contractors should in turn take out such insurance in a timely manner.

Our project cost control department examines and verifies all our construction budgets in order to ensure that the insurance costs have been taken into account.

PRC laws and regulations do not require property developers such as us to obtain insurance in respect of the construction project. We have, however, of our own initiative, incorporated into our standard construction contract that we will obtain insurance to cover the lives and properties of our own staff and third parties who are visiting our construction sites.

EMPLOYEES

As of September 30, 2012 , we had 2,319 full-time employees. The following table provides a breakdown of these employees by responsibility:

Management	9
Administration	79
Accounting	52
Human resources	11
Engineering	249
Marketing and sales	62
Hotel management	246
Property management	1,611
Total.	<u>2,319</u>

As of September 30, 2012, we also had 323 contract workers, primarily engaged in sales, dispatched to us from third-party human-resources companies.

The remuneration package of our employees includes salary, bonus and other cash subsidies. In general, we determine employee salaries based on each employee’s qualification, position and seniority. We have designed an annual review system to assess the performance of our employees, which forms the basis of our determination on salary raise, bonus and promotion. We are subject to social insurance contribution plans organized by the PRC local governments. In accordance with the relevant national and local labor and social welfare laws and regulations, we are required to pay on behalf of our employees monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and housing reserve fund. We believe the salaries and benefits that our employees receive are competitive in comparison with market rates.

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

LEGAL PROCEEDINGS

From time to time, we are involved in various legal proceedings and claims that arise in the ordinary course of business. Except as disclosed below, we are not engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to us to be pending or threatened by against us.

On June 4, 2012, we were served with a summons issued by Shanghai No. 1 Intermediate People's Court in relation to an action initiated by a subsidiary of Fosun International Limited, or Fosun Group, with respect to our indirect acquisition of a 50% equity interest in Shanghai Haizhimen Property Investment Management Co., Ltd., or Shanghai Haizhimen, which indirectly holds the Bund 8-1 Land. We conducted the acquisition through an equity transfer and loan assignment agreement entered into in December 2011 with various vendors, pursuant to which we acquired from the vendors the entire equity interest in various shareholders of Shanghai Haizhimen which hold an aggregate 50% equity interest in Shanghai Haizhimen. As a result, following the completion of the acquisition, we treat Shanghai Haizhimen as a jointly controlled entity. Fosun Group holds the other 50% equity interest in Shanghai Haizhimen. Fosun Group took the view that our indirect acquisition of the 50% interest in Shanghai Haizhimen breached its preemptive right as an existing 50%-interest shareholder to acquire the same interest, and pleaded the court to invalidate our acquisition. We take the view that the acquisition did not involve a transfer of equity interest in Shanghai Haizhimen and therefore that the acquisition of the entire equity interest in the shareholders of Shanghai Haizhimen did not constitute a breach of any pre-emptive rights as alleged by Fosun Group. As of the date of this offering memorandum, the legal proceedings are ongoing, and our directors do not consider it probable that the court will invalidate the acquisition. Should Fosun Group prevail in its suit, however, Shanghai Haizhimen would cease to be our jointly controlled entity, and the consideration we paid for the indirect acquisition of the 50% interest in Shanghai Haizhimen would be refunded to us from the vendors.

MANAGEMENT

Directors

Our board of directors is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of the members of our board:

Directors	Age	Position
Pan Shiyi	48	Executive director and chairman
Zhang Xin	46	Executive director and chief executive officer
Yan Yan	48	Executive director and president
Tong Ching Mau	41	Executive director and chief financial officer
Yin Jie	44	Executive director, senior vice president and chief architect
Ramin Khadem	67	Independent non-executive director
Cha Mou Zing, Victor	62	Independent non-executive director
Yi Xiqun	64	Independent non-executive director

Executive Directors

Mr. Pan Shiyi, aged 48, is an executive director and chairman of our board. Mr. Pan co-founded Redstone Industry Co., Ltd., the predecessor of our Company, in 1995. Since then he has led, together with his wife, Ms. Zhang Xin, the development of all of our projects. Before that, Mr. Pan Shiyi co-founded Beijing Vantone Co., Ltd. in 1992. Mr. Pan Shiyi has over 25 years of experience in the PRC real estate industry. Mr. Pan Shiyi was selected as “Real Estate Person of the Year” by sina.com in 2009 and 2010, Ernst & Young Entrepreneur of the Year China 2008, one of the “Top 10 Influential Figures in Real Estate Industry” by sina.com in 2004 and 2006, one of the “25 most influential business leaders” in China by *Fortune (China) Magazine* in 2005. In 2011, he was again selected as “The Most Influential Person in the Real Estate Industry in China” by *sina.com*. Mr. Pan graduated from Beijing Petroleum Institute.

Ms. Zhang Xin, aged 46, is an executive director and our chief executive officer. Ms. Zhang Xin co-founded Redstone Industry Co., Ltd., the predecessor of our Company, in 1995. Since then she has led, together with her husband Mr. Pan Shiyi, the development of all of our projects. Ms. Zhang has more than 17 years of experience in the PRC real estate industry. Ms. Zhang was selected by the Davos World Economic Forum as a Young Global Leader in 2005. In recognition of her efforts in promoting the development of architecture in Asia, Ms. Zhang was awarded the “Special Prize to an Individual Patron of Architectural Award” at *la Biennale di Venezia* in 2002. She was named among the “World’s 100 Most Powerful Women” by *Forbes Magazine* in 2008 and 2011 and was named one of the “Top 50 Women in World Business” by *the Financial Times* in 2009, 2010 and 2011. She was honored the Blue Cloud Award by the China Institute in America in 2011 and was also named among “The International Power 50” of the “Most Powerful Women” by *Fortune* magazine in 2011. She had spoken at various forums, including the China Business Summit 2003, World Economic Development Declaration 2003, the Fortune Global Forum 2005 and the World Economic Forum in 2008, 2009 and 2010. Ms. Zhang graduated with a M.Phil degree in development economics from Cambridge University.

Ms. Yan Yan, aged 48, is an executive Director and our president. She is responsible for the business development, budget control and overall management. Ms. Yan joined our Company in December 1996 and had

acted as chief operating officer and chief financial officer prior to her present position. Ms. Yan has over 19 years of experience in the PRC real estate industry. Ms. Yan received a bachelor's degree in civil engineering from Tianjin University in 1986.

Ms. Tong Ching Mau, aged 41, is an executive Director and our chief financial officer. Ms. Tong has been with our Company for over 10 years. She acted as the director of corporate finance and investor relations and then financial controller prior to her promotion as the chief financial officer. Ms. Tong is responsible for our financial management, investor relations and corporate finance. Prior to joining our Company in 2002, she worked in the investment banking division of Credit Suisse First Boston in New York. Ms. Tong has 14 years of experience in finance. She received a Master of Business Administration degree from Yale University, and master and bachelor's degrees in economics from Fudan University in Shanghai.

Mr. Yin Jie, aged 44, is an executive director and our senior vice president, chief architect and general manager of our Shanghai office, responsible for overall project design. He joined our Company in 2009. Mr. Yin has over 20 years of experience in real estate and design. Mr. Yin received his bachelor's degree from University of Washington in 1992 and is a registered architect in Washington State of the U.S. Prior to joining our Company, Mr. Yin practiced in a major U.S. architectural firm for 17 years.

Independent Non-executive Directors

Dr. Ramin Khadem, aged 67, is an independent non-executive director. He is a member of the Board of Trustees of the International Space University, Strasbourg, France. He is a member of the board of the International Institute of Space Commerce, a member of the advisory board of ManSat Ltd., a company that serves the needs of the international space industry, as well as Near Earth L.L.C., an investment bank with a focus on the satellite, media and telecommunications clients and investors. He is also chairman of Odyssey Moon Ltd, a lunar enterprise business. Dr. Khadem served as an executive director of Inmarsat Ventures Limited (formerly known as Inmarsat Ventures Plc.) ("Inmarsat") between October 2000 and July 2004, and also as an executive director of Inmarsat Group Holdings Limited between December 2003 and July 2004 where he was responsible for the overall financial management and performance of the Inmarsat Group. Since 1993, he had been acting as the chief financial officer of Inmarsat. Before this, he had held several other posts in Inmarsat, including those of financial director, financial manager and executive officer. Dr. Khadem graduated from the University of Illinois with a Bachelor of Science degree in electrical engineering and from McGill University with M.A. and Ph.D. degrees in economics.

Mr. Cha Mou Zing Victor, aged 62, is an independent non-executive director. He is the deputy chairman and managing director of HKR International Limited (a company listed on the Stock Exchange of Hong Kong Limited) and an alternate independent non-executive director of New World Development Company Limited (a company listed on the Stock Exchange of Hong Kong Limited). He is also a member of the Chinese People's Political Consultative Committee of Zhejiang Province and a council member of the Hong Kong Polytechnic University. Mr. Cha graduated from Stanford University with a Master of Business Administration degree and University of Wisconsin with a Bachelor of Science degree.

Mr. Yi Xiqun, aged 64, is an independent non-executive Director. Mr. Yi is vice chairman of China Association of Private Equity and vice chairman and the first president, under a rotating presidency, of Beijing Private Equity Association. From 1986 to 1987, he guided the Economic Reform Office of the Beijing Municipal People's Government. From 1987 to 1991, he was District Chief of Xicheng District in Beijing. From 1991, he was an assistant to the Mayor of Beijing. At the same time, he was director of the Foreign Economy & Trade Committee in Beijing and director of Management Committee in Beijing Economic-Technological Development Area. In 1999, he became the general manager of BHLH, a subsidiary of Beijing Holdings Ltd., and director of Beijing Holdings Ltd. In 2003, he became chairman of BHLH and chairman of the board of Beijing Enterprises Holdings limited (a company listed on the Stock Exchange of Hong Kong Limited). In December 2004, he began

serving as the Chairman of Beijing Enterprises Holdings Group Company Ltd., during which period Mr. Yi also served as chairman of Beijing Private Equity Management Co., Ltd. Mr. Yi now serves as vice chairman of China Association of Private Equity, vice chairman of Beijing Private Equity Association, independent non-executive director of China Merchants Bank Co., Ltd. (a company listed on the Stock Exchange of Hong Kong Limited), independent director of Zhejiang Zheshang Trust, independent director of Asian Capital (Corporate Finance) Limited, vice president of China Association for the Promotion of Industrial Development and member of the ZhongGuanCun Advisory Committee.

Senior Management

Ms. Ng Swen Dein, aged 48, is responsible for overall property management and customer service. She joined the Company in 2010. Ms. Ng received her bachelor's degree in marketing management and finance from University of Wisconsin in 1987. Ms. Ng has 15 years of relevant experience in China's real estate industry including business management and property operations.

Mr. Wang Xiangang, aged 39, is our vice president and deputy general manager of our Shanghai office, in charge of non-construction management. Mr. Wang graduated from Tsinghua University and China Europe International Business School.

Mr. Wang Shengjiang, aged 40, is our vice president in charge of sales, marketing and credit control of our Beijing office. Mr. Wang graduated from Tianjin University with a bachelor's degree in civil engineering in 1994 and obtained an Executive Master of Business Administration degree from Tsinghua University Business School in 2012. Mr. Wang has more than 17 years of real estate development-related experience and has been working with our Company for 12 years.

Ms. Lai Chor Shan, aged 39, is our vice president and general counsel overseeing legal matters of the Company. Ms. Lai joined our Company in May 2008. Ms. Lai graduated from the University of Hong Kong with a Bachelor of Laws (Honours) in 1995 and a Postgraduate Certificate in Laws (with Distinction) in 1996. She received a Bachelor of Civil Law degree from the University of Oxford in 1997. Ms. Lai is admitted as a solicitor in Hong Kong and England & Wales. Before joining our Company, Ms. Lai practiced law in two major international law firms for over ten years.

Ms. Ma Sau Kuen Gloria, aged 53, is our company secretary. She has over 30 years of experience in corporate secretarial work that includes acting as company secretary for companies listed on the Stock Exchange of Hong Kong Limited and setting up companies in different jurisdictions such as Hong Kong, Cayman Islands and British Virgin Islands. She also has extensive knowledge and experience in corporate restructuring and legal compliance issues. Ms. Ma is a director and head of registration and compliance services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. She holds a master's degree in business administration from the University of Strathclyde, Scotland, and is a fellow member of the Hong Kong Institute of Chartered Secretaries, and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Board Committees

Audit Committee

We have established an audit committee with written terms of reference as amended, in compliance with the Listing Rules. The audit committee comprises three members, namely Dr. Ramin Khadem, Mr. Cha Mou Zing Victor and Mr. Yi Xiqun, who are independent non-executive directors. The primary duties of the audit committee are to review and supervise our financial reporting process and internal controls and nominate and

monitor external auditors. The committee is chaired by Dr. Ramin Khadem, who has the appropriate accounting and financial management expertise as required under the Listing Rules.

Remuneration Committee

We have established a remuneration committee with written terms of reference as amended, in compliance with the Listing Rules. The remuneration committee comprises three members, namely Dr. Ramin Khadem, Mr. Cha Mou Zing Victor and Mr. Yi Xiqun, who are independent non-executive directors. The chairman of the remuneration committee is Mr. Cha Mou Zing Victor. The primary duties of the remuneration committee are to appraise the performance and make recommendations on the remuneration package of our directors and senior management and evaluate and make recommendations on employee benefit arrangements to our board of directors.

Nomination Committee

We have established a nomination committee with written terms of reference as amended, in compliance with the Listing Rules. The remuneration committee comprises three members, namely Mr. Cha Mou Zing Victor, Ms. Zhang Xin and Dr. Ramin Khadem. The chairman of the nomination committee is Mr. Cha Mou Zing Victor. The nomination committee is responsible for reviewing the structure, size and composition of the board, assessing the independence of the independent non-executive directors and making recommendations to the board on the appointment and re-appointment of directors.

Compliance Committee

We have established a compliance committee currently comprising two independent non-executive directors, one executive director and one senior management personnel, namely Mr. Yi Xiqun, Dr. Ramin Khadem, Ms. Zhang Xin and Ms. Lai Chor Shan. Mr. Yi Xiqun serves as the chairman of the compliance committee. Representatives from our internal legal department and our external legal advisers are invited to attend committee meetings to ensure that we are in full compliance with all applicable laws and regulations. We hold meetings on a bi-annual basis.

Compensation of Directors

Our remuneration policies are formulated based on qualifications, years of experience and the performance of individual employees, and are reviewed regularly.

The aggregate amount of compensation (including any salaries, fees, discretionary bonuses and other allowances and benefits in kind) paid by us during each of the three years ended December 31, 2009, 2010 and 2011, to those persons who have been or are our directors, was approximately RMB26.1 million, RMB20.1 million and RMB22.1 million (US\$3.5 million), respectively.

Share Option Scheme

We adopted a share option scheme and a pre-IPO share option scheme on September 14, 2007 in order to reward eligible participants who contribute to the Group and to encourage eligible participants to work towards enhancing the value of the Company. Eligible participants include our directors and employees and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of our Group who our board of directors considers, in its sole discretion, have contributed or will contribute to the Group. We have granted options to certain of our

directors and employees and, as of December 31, 2011, options to subscribe for up to 3,599,000 shares and 6,854,340 shares of our Company remained outstanding under our share option scheme and pre-IPO share option scheme, respectively.

Directors' and Chief Executives' Interests

As of June 30, 2012, the interests and short positions of our directors and chief executives in the shares and underlying shares of the Company, which will have to be notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance of Hong Kong (the "SFO") (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) or which will be required, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name	Personal interests	Family interests	Corporate interests	Number of ordinary shares	Approximate percentage of shareholding
Pan Shiyi	–	3,324,100,000 (L)	–	3,324,100,000 (L)	64.0648% (L)
		262,721,286 (S)	–	262,721,286 (S)	5.0634% (S)
Zhang Xin	–	–	3,324,100,000 (L)	3,324,100,000 (L)	64.0648% (L)
		–	262,721,286 (S)	262,721,286 (S)	5.0634% (S)
Yan Yan	2,966,113 (L) (Note 2)	–	–	2,966,113 (L)	0.0572% (L)
Tong Ching Mau . .	876,121 (L) (Note 3)	–	–	876,121 (L)	0.0169% (L)
Ramin Khadem . .	300,000 (L)	–	–	300,000 (L)	0.0058% (L)

Notes:

- (1) (L) represents the directors' long position in such securities or underlying securities, (S) represents the Directors' short position in such securities or underlying securities.
- (2) These are interests in the underlying shares, which include (i) 1,242,500 options granted under the pre-IPO share option scheme approved by the shareholders of the Company on September 14, 2007 (the "Pre-IPO Share Option Scheme"); (ii) 901,000 options granted on January 30, 2008 under the share option scheme approved by the shareholders of the Company on September 14, 2007 (the "Share Option Scheme"); (iii) 90,613 shares beneficially owned; and (iv) 306,000 shares and 426,000 shares granted on March 9, 2011 and January 13, 2012, respectively, under an employees' share award scheme.
- (3) These are interests in the underlying shares, which include (i) 331,250 options granted under the Pre-IPO Share Option Scheme; (ii) 223,000 options granted on January 30, 2008 under the Share Option Scheme; (iii) 102,000 shares and 213,000 shares granted on March 9, 2011 and January 13, 2012 respectively under the employees' share award scheme; and (iv) 6,871 shares beneficially owned.

PRINCIPAL SHAREHOLDERS

As of October 19, 2012, so far as the directors are aware, the following persons or institutions have beneficial interests or short positions in any shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, Cap 571 of the Laws of Hong Kong, or who is directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
HSBC International Trustee Limited (Note 2) . .	trustee	3,327,259,000(L)	64.9187%(L)
Capevale Limited	interest of controlled corporation	3,324,100,000(L)	64.8570%(L)
Boyce Limited (Note 3)	beneficial owner	1,662,050,000(L)	32.4285%(L)
Capevale Limited (Note 4)	beneficial owner	1,662,050,000(L)	32.4285%(L)

Notes:

- (1) (L) represents shareholders' long position in such securities or underlying securities.
- (2) HSBC International Trustee Limited (in its capacity as the trustee of the trust) is the legal owner of 100% of the shares in the issued share capital of Capevale Limited, a company incorporated in the Cayman Islands. HSBC International Trustee Limited holds 3,327,259,000 shares (long position) and 262,721,286 shares (short position) under the trust for the benefit of the beneficiaries of the trust, including Ms. Zhang Xin. Boyce Limited, which is incorporated in the British Virgin Islands, is the beneficial owner of 1,662,050,000 shares (long position) and 262,721,286 shares (short position). Capevale Limited, which is incorporated in the British Virgin Islands, is the beneficial owner of 1,662,050,000 shares (long position).
- (3) Boyce Limited, incorporated in the British Virgin Islands, is a wholly owned subsidiary of Capevale Limited, a company incorporated in the Cayman Islands.
- (4) Capevale Limited, incorporated in the British Virgin Islands, is a wholly owned subsidiary of Capevale Limited, a company incorporated in the Cayman Islands.

Save as disclosed above, to the best knowledge of the Directors, as of June 30, 2012, none of any person who had interest or short position in the shares and underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be recorded into the register referred to therein.

RELATED PARTY TRANSACTIONS

The table below sets forth the major material transactions between us and our related parties during the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012:

Amounts Due to Related Parties and Corresponding Transactions

Related parties	Relationship	Transactions	For the year ended December 31,			For the six months ended June 30,
			2009	2010	2011	2012
(unaudited)						
(RMB in thousands)						
Beijing Hongyun Co., Ltd.	An investor in a subsidiary of our Company	Certain property unit purchases	(4,414)	–	–	–
Shanghai Yi Dian Holdings (Group) Co., Ltd.	Non-controlling equity holder of a subsidiary	Certain advances ⁽¹⁾	–	151,254	151,254	151,254
Shanghai Rural Commercial Bank	Non-controlling equity holder of a subsidiary	Certain advances ⁽¹⁾	–	151,254	151,254	151,254
Mr. Pan Shiyi	Non-controlling shareholder of subsidiaries of the Company	Dividends payable ⁽²⁾	–	48,120	24,800	24,800

(1) The balance as of June 30, 2012, December 31, 2011 and 2010 mainly represented the advances of RMB302,508,000 from Shanghai Yi Dian Holdings (Group) Co., Ltd. and Shanghai Rural Commercial Bank, the non-controlling equity holders of Shanghai Ding Ding Real Estate Development Co., Ltd. which were incurred before the acquisition by the Group. The advances were interest-free, unsecured and had no fixed term of repayment.

(2) The balance as of December 31, 2010 represented the dividends payable to Mr. Pan Shiyi, the non-controlling shareholder of Beijing Shanshi Real Estate Co., Ltd. and Beijing SOHO Real Estate Co., Ltd. A dividend of RMB23,320,000 was declared by Beijing Shanshi Real Estate Co., Ltd. in September 2010 and a dividend of RMB24,800,000 was declared by Beijing SOHO Real Estate Co., Ltd. in December 2010.

Other Related-Party Transactions

Guarantees Provided to Us

Beijing Redstone Industry Co., Ltd., a company controlled by Mr. Pan Shiyi, entered into agreements with certain banks in 1998 and 1999 with respect to guarantees for mortgage loans provided to certain buyers of our properties. Beijing Redstone Industry Co., Ltd. provided such guarantees, which amounted to RMB46.8 million, RMB21.8 million, RMB10.8 million (US\$1.7 million) and RMB6.6 million (US\$1.0 million) as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. The guarantee period generally ranged from 2 to 17 years.

Property Purchases from Us

Tianjin Jingshi Investment Management & Consulting Co., Ltd., a company controlled by Ms. Zhang Xin, and Beijing Redstone Newtown Real Estate Co., Ltd., our subsidiary, entered into a property purchase contract on April 28, 2009, pursuant to which Tianjin Jingshi Investment Management & Consulting Co., Ltd. agreed to purchase a unit in the Commune by the Great Wall for a consideration of RMB15.3 million. Tianjin Jingshi Investment Management & Consulting Co., Ltd. entered into two other property purchase contracts with Beijing SOHO Real Estate Co., Ltd. on May 24, 2011, pursuant to which Tianjin Jingshi Investment Management & Consulting Co., Ltd. agreed to purchase two units in our Sanlitun SOHO for a total consideration of RMB45.8 million.

Personal Guarantees of Our Indebtedness

Mr. Pan Shiyi and Ms. Zhang Xin provided personal guarantees with regard to our obligations under the China Merchants Bank Loan Facility. See “Descriptions of Material Indebtedness and Other Obligations — China Merchants Bank Loan Facility.” Such guaranteed obligations amounted to RMB1,436.9 million, RMB1,683.7 million (US\$265.0 million) and RMB1,656.9 million (US\$260.8 million) as of December 31, 2010 and 2011 and June 30, 2012, respectively. The guarantees will be released upon the repayment of the bank loans.

DESCRIPTION OF MATERIAL INDEBTEDNESS AND OTHER OBLIGATIONS

To fund our existing property projects and to finance our working capital requirements, we have entered into financing agreements with various financial institutions. As of June 30, 2012, our total borrowings (excluding the Convertible Bonds) amounted to RMB11,524.3 million (US\$1,814.0 million). Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

PRC-LOAN AGREEMENTS

Certain of our PRC subsidiaries have entered into loan agreements with local branches of various PRC banks and financial institutions, including China Minsheng Banking Corp., Ltd, Bank of China, Agricultural Bank of China and China CITIC Bank. These loans include project loans to finance the construction of our projects and loans to finance our working capital requirements. They have terms ranging from 36 months to 144 months, which generally correspond to the construction periods of the particular projects. As of June 30, 2012, the aggregate outstanding amount under these loans totaled approximately RMB4,435.0 million (US\$698.1 million), of which RMB2,185.0 million (US\$343.9 million) was due within one year, RMB1,865.0 million (US\$293.6 million) was due between one and five years, and RMB385.0 million (US\$60.6 million) was due over five years. Our PRC loans are typically secured by land use rights and properties as well as guaranteed by certain of our other PRC subsidiaries.

Interest

The principal amounts outstanding under the PRC loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to annual or quarterly review by the lending banks. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of June 30, 2012, the weighted average effective interest rate on the aggregate outstanding amount of our PRC loans was 6.84% per annum.

Covenants

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

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

Events of Default

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

Guarantee and Security

Certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks and financial institutions in connection with some of the PRC loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these loans. Further, as of June 30, 2012, RMB4,435.0 million (US\$698.1 million) of the PRC loans were secured by land use rights and properties held by the subsidiary borrowers and/or our other PRC subsidiaries.

CONVERTIBLE BONDS

On July 2, 2009, we entered into a trust deed (as amended and supplemented from time to time, the "CB Trust Deed") pursuant to which we issued an aggregate principal amount of HK\$2,800,000,000 3.75% Convertible Bonds due 2014. As of the date of this offering memorandum, the entire aggregate principal amount of the Convertible Bonds is outstanding.

Interest

The Convertible Bonds bear an interest rate of 3.75% *per annum*, payable semi-annually in arrears.

Covenants

We have agreed, among other things, that we will not (and save for certain exceptions or permitted cases), create or agree to create or permit to arise or subsist any encumbrance on our present or future undertaking, properties, assets, rights or revenues.

Maturity and Redemption

The maturity date of the Convertible Bonds is July 2, 2014. If we would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the Convertible Bonds, in whole but not in part, at their principal amount, plus any accrued and unpaid interest to the date of redemption, subject to certain exceptions.

At any time after July 2, 2012 and prior to the maturity date, we may redeem, in whole but not in part, the Convertible Bonds at their principal amount, together with any accrued but unpaid interest to the date of redemption, if the closing price of our shares at the prevailing rate applicable to the relevant trading day for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is published, was at least 130% of the then conversion price in effect on such trading day.

At any time prior to the maturity date, we may redeem, in whole but not in part, the outstanding Convertible Bonds at their principal amount, together with any accrued but unpaid interest to the date of redemption, if at any time at least 90% in principal amount of the Convertible Bonds originally issued has already been converted, redeemed or purchased and cancelled.

Following the occurrence of a delisting of our shares on the Stock Exchange of Hong Kong Limited or an alternative stock exchange, or a change of control event, the holder of each Convertible Bond will have the option to require us to redeem all, but not part, of such holder's Convertible Bonds at their principal amount, together with any accrued but unpaid interest to the date of redemption.

Events of default

The CB Trust Deed contains certain customary events of default, including default in the payment of principal on the Convertible Bonds, when such payments become due, default in payment of interest, and other events of default specified in the CB Trust Deed. If an event of default occurs, the trustee under the CB Trust Deed may at its sole discretion, and if so requested in writing by the holders of not less than 25% of the outstanding Convertible Bonds, or if so directed by an extraordinary resolution, may declare the principal of the Convertible Bonds plus any accrued and unpaid interest to be immediately due and payable.

Conversion

The Convertible Bonds are, at the option of the holders, convertible on or after 40th day after July 2, 2009 and up to the close of business on the seventh day prior to the maturity date (or if such bond shall have been called for redemption by the Company before maturity, then up to the close of business on a date no later than seven days prior to the date fixed for redemption, or if notice requiring redemption has been given by such bondholder, then up to the close of business on the day prior to the giving of such notice) into our fully paid ordinary shares with a par value of HK\$0.02 each at an initial conversion price of HK\$5.88 per share. The conversion price is subject to adjustment for, among other things, consolidation, subdivision or reclassification of shares, capitalization of profits or reserves, distributions, rights issues and other dilutive events as described in the CB Trust Deed and the terms and conditions relating to the Convertible Bonds.

Security Trust and Intercreditor Deed

The trustee for the Convertible Bonds, on its behalf and on behalf of the holders of the Convertible Bonds, will accede to a security trust and intercreditor deed dated June 24, 2011 that governs the relationship among the holders of the Notes, the finance parties under the 2011 Credit Agreement, the finance parties under the 2012 Credit Agreement, the holders of and the trustee for the Convertible Bonds and the holders of any Permitted Pari Passu Secured Indebtedness (or their representatives or agents). The deed provides, among others, that the security interest created to secure the 2011 Credit Facility and the 2012 Credit Facility will be shared on a pari passu basis among all creditors who become parties to the deed.

Guarantee

The obligations under the Convertible Bonds will be guaranteed by certain of our existing subsidiaries upon the accession to the security trust and intercreditor deed by the trustee for the Convertible Bonds, substantially simultaneous with the issuance of the Notes. Each of the Subsidiary Guarantors, jointly and severally, will guarantee the due and punctual payment of all sums payable under the Convertible Bonds.

CHINA MERCHANTS BANK LOAN FACILITY

On June 24, 2010, Sure Fancy Investment Limited ("Sure Fancy"), our wholly owned subsidiary incorporated in Hong Kong, entered into a facility agreement (the "China Merchants Bank Loan Facility Agreement") in connection with a US\$300,000,000 term loan facility with China Merchant Bank Co. Ltd (the "China Merchants Bank Loan Facility"). The proceeds of the China Merchant Bank Loan Facility were

earmarked to acquire 90% equity interest in T&T International Investment Corporation. As of June 30, 2012, US\$270.0 million of the China Merchants Bank Loan Facility was outstanding.

Guarantee

The obligations under the China Merchants Bank Loan Facility Agreement are guaranteed, joint and severally, by Mr. Pan Shiyi, Ms. Zhang Xin and us for the due and punctual payment of all sums payable under the China Merchant Bank Loan Facility.

Collateral

Our obligations under the China Merchants Bank Loan Facility Agreement are secured by, among others, the capital stock of certain subsidiaries owned by Sure Fancy and certain land use rights and building ownership rights.

Covenants

Pursuant to the credit agreement, Sure Fancy agreed, among others, that it will notify the lender immediately once the proposed acquisition of T&T International Investment Corporation is terminated, and repay the outstanding amount of China Merchants Bank Loan Facility immediately.

Interest

Under the China Merchants Bank Loan Facility Agreement, the interest rate for the China Merchants Bank Loan Facility is 4.2% plus three-month LIBOR per annum for each interest period.

Maturity and Repayment

The term loan under the China Merchants Bank Loan Facility is due on March 25, 2015. We must repay US\$60,000,000, US\$60,000,000 and US\$180,000,000 on June 30, 2014, November 30, 2014 and March 25, 2015, respectively. We may, by giving no less than 14 days' prior written notice to lender, prepay the China Merchants Bank Facility, in whole or in part, provided that, among others, the prepayment amount shall be no less than US\$10,000,000 and should be an integral multiple of US\$10,000,000.

Events of Default

The China Merchants Bank Loan Facility contains certain customary events of default, including insolvency and breaches of the terms of the China Merchant Bank Loan Facility Agreement. The lender is entitled to terminate the China Merchant Bank Loan Facility Agreement and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

2010 SYNDICATED LOAN

On August 16, 2010, Star Well Industrial Limited ("Star Well"), our wholly owned subsidiary incorporated in Hong Kong, entered into a facility agreement which was amended by a supplemental facility agreement dated April 12, 2011 (collectively, the "2010 Facility Agreement") in connection with a US\$300,000,000 exchangeable term loan facility with, among others, various lenders and Industrial and Commercial Bank of China (Macau) Limited as the facility agent (the "2010 Syndicated Loan"). The 2010 Syndicated Loan comprises a tranche A

facility and a tranche B facility with each being in the amount of US\$150,000,000. As of June 30, 2012, US\$60.0 million of the 2010 Syndicated Loan was outstanding.

Collateral

Our obligations under the 2010 Facility Agreement are secured by, among others, the capital stock of the certain subsidiaries owned by Star Well, certain account into which the distributable proceeds of the 2010 Syndicated Loan are deposited, certain repayment account and a capital account.

Interest

Under the 2010 Syndicated Loan, the interest rate for the 2010 Syndicated Loan is 3.2% plus three-month LIBOR per annum for each interest period.

Covenants

Pursuant to 2010 Facility Agreement, Star Well Industrial Limited agreed to, among others, the following covenants:

- Ms. Zhang Xin shall, directly or indirectly, hold 51% equity interest in us at all time during the term of the 2010 Syndicated Loan;
- we shall at all times, directly hold 100% equity interest in Star Well Industrial Limited and certain other subsidiaries;
- Wangjin SOHO Real Estate Development Co., Ltd., our subsidiary incorporated in PRC, shall at all time be entitled to 100% direct economic interest of certain real estate development projects, their relevant land and buildings and other related assets;
- certain cash may only be deposited into the repayment account, which includes (i) any cash, including but not limited to shareholder's loan and capital injection, provided by us to Star Well Industrial Limited; (ii) any cash provided by Wangjin SOHO Real Estate Development Co., Ltd. to Star Well Industrial Limited, which includes, but is not limited to, payment of dividend, repayment of shareholder's loan and any other distribution; and (iii) any cash provided by any member of our Group to Star Well Industrial Limited, which includes, but is not limited, shareholder's loan or other inter-company cash transfers; and
- neither it nor any other party may make any withdrawal from the repayment account for any purpose other than for repayment of the outstanding of the 2010 Syndicated Loan or any related expenses.

In addition, each of Star Well Industrial Limited and we have further agreed, among other things, that we will not, without the prior written consent of the majority lenders, create or agree to create or permit to arise or subsist any encumbrance on Star Well's or our present or future undertaking, properties, assets, rights or revenues, or, save in the ordinary course of business, Star Well or we may not make any loans or give any guarantee or indemnity to or for the benefit of, or otherwise voluntarily assume any liability, whether actual or contingent, in respect of any obligation of, any person.

Maturity and Repayment

The term loan under the 2010 Syndicated Loan is due on August 16, 2014. We must repay all outstanding amount under the tranche A facility and the tranche B facility on August 16, 2014. We may, by giving not less than 30 days' prior written notice to the facility agent, prepay the 2010 Syndicated Loan in whole or in part, provided that, among others, the prepayment amount shall be no less than US\$30,000,000 and should be an integral multiple of US\$10,000,000.

Events of Default

The 2010 Syndicated Loan contains certain customary events of default, including insolvency and breaches of the terms of the 2010 Facility Agreement. The lenders are entitled to terminate the 2010 Facility Agreement and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

2011 CREDIT FACILITY

On June 22, 2011, we entered into a credit agreement (the "2011 Credit Agreement") in connection with a US\$605,000,000 exchangeable term loan facility with, among others, a syndicate of banks and Standard Chartered Bank (Hong Kong) Limited as the facility agent (the "2011 Credit Facility"). The 2011 Credit Agreement was supplemented by an additional tranche A lender access agreement between Bank of Communications and the facility agent. The 2011 Credit Facility comprises a tranche A facility in the amount of US\$230,000,000 and a tranche B facility in the amount of HK\$2,916,500,000. As of June 30, 2012, we have drawn down US\$230.0 million under tranche A facility and HK\$2,916.5 million (US\$376.0 million) under the tranche B facility.

Guarantee

The obligations pursuant to the 2011 Credit Facility are guaranteed by the certain subsidiary guarantors. Each of the subsidiary guarantors, jointly and severally, guarantees the due and punctual payment of all sums payable under the 2011 Credit Facility.

Collateral

Our obligations under the 2011 Credit Agreement are secured by, among others, the capital stock of the subsidiary guarantors, certain other offshore assets, any intercompany given by us or these subsidiary guarantors to our PRC subsidiaries, certain account into which all distributable proceeds relating to any property project are deposited and an interest reserve account.

Interest

Under the 2011 Credit Agreement, the interest rate for the tranche A facility is 3.55% plus LIBOR per annum and for the tranche B facility is 3.55% plus HIBOR per annum for each interest period.

Covenants

Pursuant to the credit agreement, we agreed to the following financial covenants:

- our consolidated tangible net worth shall not at any time be less than RMB17,000,000,000;

- our consolidated total net borrowings to our consolidated tangible net worth shall at no time exceed 40%;
- our consolidated EBITDA to our consolidated net financing costs for the period from and including June 22, 2011 to and including December 31, 2011, from and including January 1, 2012 to and including December 30, 2012, and from and including December 31, 2012 and thereafter shall be no less than 2.80, 0.75 and 3.00, respectively;
- our consolidated PRC borrowings shall not at any time exceed 25% of our consolidated total tangible asset;
- our aggregate book value of all our property projects in PRC shall be no less than US\$600,000,000 or its equivalent; and
- in any financial year, the amount of any dividends declared or distributed shall not exceed 40% of our net profit attributable to our shareholders in that financial year.

We have further agreed, among other things, that we will not, except as otherwise permitted under the 2011 Credit Agreement, create or agree to create or permit to arise or subsist any encumbrance on our present or future undertaking, properties, assets, rights or revenues.

Maturity and Repayment

The term loan under the 2011 Credit Agreement is due on June 22, 2014. We must repay the outstanding loan amount on the 24th month, 30th month and 36th months from June 22, 2014, in the amount equal to 10%, 40% and 50% of the outstanding loan amount, respectively. We may, by giving not less than 14 days' prior written notice to the facility agent, prepay the 2011 Credit Facility in whole or in part.

Events of Default

The 2011 Credit Agreement contains certain customary events of default, including insolvency and breaches of the terms of the 2011 Credit Agreement. The lenders are entitled to terminate the 2011 Credit Agreement and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default and/or exercise or direct the security trustee to exercise its rights, remedies, powers or discretions.

Security Trust and Intercreditor Deed

On June 24, 2011, the Company, the common security agent, the subsidiary guarantors and the creditors of the 2011 Credit Facility entered into a security trust and intercreditor deed. The deed provides, among others, that the security interests created to secure the 2011 Credit Facility will be shared on a pari passu basis among the creditors of the 2011 Credit Facility and any other creditors or their agent or trustee who become parties to the deed.

SPD BANK FACILITY

On March 13, 2012, we entered into a facility letter (the "SPD Bank Facility Letter") in connection with a HK\$775,000,000 general banking loan facility with Shanghai Pudong Development Bank, Hong Kong Branch (the "SPD Bank Facility"). The obligations under the SPD Bank Facility Letter are backstopped by an irrevocable and unconditional letter of guarantee, issued by Shanghai Pudong Development Bank Co., Ltd.,

Beijing Branch on March 27, 2012 in favor of Shanghai Pudong Development Bank, Hong Kong Branch (the “SPD LG”). The interest rate for an interest period is 2.5% per annum, plus 1, 2, 3, and 6-month HIBOR as selected by us prior to the commencement of an interest period. The SPD Bank Facility will mature on the earlier of (i) 12 months after the issuance of the SPD LG or (ii) 10 business days before the expiry date of the SPD LG. As of June 30, 2012, HK\$775.0 million (US\$99.9 million) of the SPD Bank Facility was outstanding.

2012 CREDIT FACILITY

On June 5, 2012, we entered into a credit agreement (the “2012 Credit Agreement”) in connection with a US\$626,000,000 equivalent transferable term loan facility with, among others, a syndicate of banks and Standard Chartered Bank (Hong Kong) Limited as the facility agent (the “2012 Credit Facility”). The 2012 Credit Facility comprises tranche A facility in the amount of US\$385,000,000 and tranche B facility in the amount of HK\$1,180,000,000. As of June 30, 2012, we have drawn down US\$80.1 million under tranche A facility and HK\$219.7 million (US\$28.3 million) under the tranche B facility.

Guarantee

Our obligations under the 2012 Credit Facility are guaranteed by certain subsidiary guarantors. Each of the subsidiary guarantors, jointly and severally, guarantees the due and punctual payment of all sums payable under the 2012 Credit Facility.

Collateral

Our obligations under the 2012 Credit Agreement are secured by the capital stock of certain subsidiary guarantors, certain other offshore assets, any intercompany given by us or these subsidiary guarantors to our PRC subsidiaries, certain account into which all distributable proceeds relating to any property project are deposited and an interest reserve account.

Interest

Under the 2012 Credit Agreement, the interest rate for the tranche A facility is 4.25% plus LIBOR per annum and for the tranche B facility is 4.25% plus HIBOR per annum for each interest period.

Covenants

Pursuant to the credit agreement, we agreed to the following financial covenants:

- our consolidated tangible net worth shall not at any time be less than RMB17,000,000,000;
- our consolidated total net borrowings shall at no time exceed 40% of our consolidated tangible net worth;
- the ratio of our consolidated EBITDA to consolidated net financing costs shall not be less than 3.0:1 at the end of each 12-month period ending on the last day of our financial half-year;
- our total PRC borrowings shall at no time exceed 25% of our consolidated total tangible assets;
- the aggregate book value of all our property projects in PRC shall be no less than US\$600,000,000 or its equivalent; and

- in any financial year, the amount of any dividends declared or distributed shall not exceed 40% of our net profit attributable to our shareholders in that financial year.

We have further agreed, among other things, that we will not, except as otherwise permitted under the 2012 Credit Agreement, create or agree to create or permit to arise or subsist any encumbrance on our present or future undertaking, properties, assets, rights or revenues.

Maturity and Repayment

The term loan under the 2012 Credit Agreement is due on June 5, 2015. We must repay the outstanding loan amount on the 24th month, 30th month and 36th months from June 5, 2012, in an amount equal to 10%, 40% and 50% of the outstanding loan amount, respectively. We may, by giving not less than 14 days' prior written notice to the facility agent, prepay the 2012 Credit Facility in whole or in part.

Events of Default

The 2012 Credit Agreement contains certain customary events of default, including insolvency and breaches of the terms of the 2012 Credit Agreement. The lenders are entitled to terminate the 2012 Credit Agreement and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default and/or exercise or direct the agent to exercise its rights, remedies, powers or discretions.

Security Trust and Intercreditor Deed

On or about June 6, 2012, the creditors of the 2012 Credit Facility acceded to the security trust and intercreditor deed dated June 24, 2011 to become secured parties thereunder and to share the collateral on a pari passu basis with the creditors of the 2011 Credit Facility.

DESCRIPTION OF THE 2017 NOTES

For purposes of this “Description of the 2017 Notes” section, the term “Company” refers only to SOHO China Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined herein) is referred to as a “JV Subsidiary Guarantor.” Any references to the “Notes” in this “Description of the 2017 Notes” section are solely to the Notes contemplated to be issued pursuant to this section.

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of November 7, 2012, among the Company, the Subsidiary Guarantors, as guarantors, and The Bank of New York Mellon, London Branch, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Intercreditor Deed (as defined below), the Subsidiary Guarantees and the JV Subsidiary Guarantees. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture, the Notes, the Intercreditor Deed, the Subsidiary Guarantees and the JV Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at One Canada Square, 40th Floor, London E14 5AL, United Kingdom.

Brief Description of the 2017 Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the 2022 Notes and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “—The Subsidiary Guarantees and the JV Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;
- effectively subordinated to the other secured obligations (if any) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below).

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Notes will be secured by a pledge of the Collateral as described below under the caption “—Security” and will:

- be entitled to the benefit of a lien on the Collateral (subject to any Permitted Liens) shared on a *pari passu* basis pursuant to the Intercreditor Deed (as defined below) with (i) the holders of the 2022 Notes, (ii) the creditors and the facility agent under the 2012 Credit Agreement, (iii) the creditors and the facility agent under the 2011 Credit Agreement, (iv) the holders of and the trustee for the Convertible Bonds and (v) holders of other Permitted *Pari Passu* Secured Indebtedness (or their representatives or agents); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Company will initially issue US\$600.0 million in aggregate principal amount of the Notes, which will mature on November 7, 2017, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 5.750% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on May 7 and November 7 of each year (each an “Interest Payment Date”), commencing May 7, 2013. Interest on the Notes will be paid to Holders of record at the close of business on April 22 or October 23 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as described under “Optional Redemption” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Paying Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date.

The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “—Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the 2017 Notes” include any Additional Notes that are actually issued.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be an office of the Paying Agent currently located at One Canada Square, 40th Floor, London E14 5AL, United Kingdom), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the

Note register maintained by the Note Registrar. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees and the JV Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company's Restricted Subsidiaries other than (i) those Restricted Subsidiaries organized under the laws of the PRC (the "PRC Non-Guarantor Subsidiaries") and (ii) Initial Other Non-Guarantor Subsidiaries. All of the Subsidiary Guarantors are holding companies that do not have significant operations.

None of the PRC Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. In addition, no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future.

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC) to execute and deliver to Trustee a supplemental indenture to the Indenture, pursuant to which such Restricted Subsidiary will become a party to the Indenture and to the Common Security Agent and the Trustee an accession deed to the Intercreditor Deed, pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor, as soon as practicable and in any event within 30 days after such Person becomes a Restricted Subsidiary. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee (Restricted Subsidiaries other than those organized under the laws of the PRC that do not provide Subsidiary Guarantee or JV Subsidiary Guarantee in accordance with the Indenture, the "New Non-Guarantor Subsidiaries," and together with the Initial Other Non-Guarantor Subsidiaries, the "Other Non-Guarantor Subsidiaries") at the time such entity becomes a Restricted Subsidiary, *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 20% of the Total Assets of the Company.

Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

In the case of a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% and no more than 49.9% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase no less than 50.1% of the Capital Stock of an Independent Third Party and designate such entity as a Restricted Subsidiary, the Company may, concurrently with the consummation of such sale or purchase, provide a JV Subsidiary Guarantee (as defined below) instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee (as defined below), no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary

Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;

- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company, *provided, however*, that no such appraisal is required if the sale or issuance of Capital Stock is made within 180 days after land use rights are acquired by such JV Subsidiary Guarantor or any Restricted Subsidiary of such JV Subsidiary Guarantor;
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and the Common Security Agent, as applicable:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor (the “JV Subsidiary Guarantee”) and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC, and (B) a duly executed supplemental indenture to the Indenture pursuant to which the JV Subsidiary Guarantor will become a party to the Indenture and a duly executed accession deed to the Intercreditor Deed pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Common Security Agent for itself and for the benefit of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers’ Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantees are valid, binding and enforceable against the JV Subsidiary Guarantors providing such JV Subsidiary Guarantees (subject to customary qualifications and assumptions).

As of June 30, 2012, the Company and its consolidated subsidiaries had consolidated borrowings of approximately RMB13,573.9 million (US\$2,136.6 million), of which approximately RMB11,518.0 million (US\$1,813.0 million) was secured, capital and operating lease commitments of approximately RMB15,443.0 million (US\$2,430.8 million) and contingent liabilities of approximately RMB3,441.5 million (US\$541.7 million).

As of June 30, 2012, the Non-Guarantor Subsidiaries had total borrowings of approximately RMB6,466.4 million (US\$1,017.8 million), capital and operating lease commitments of approximately RMB15,443.0 million (US\$2,430.8 million) and contingent liabilities of approximately RMB3,441.5 million (US\$541.7 million).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with the Indebtedness of such Subsidiary Guarantor under its subsidiary guarantee with respect to the 2022 Notes and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will be limited to the JV Entitlement Amount, and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and
- will be limited to the JV Entitlement Amount, and will rank at least *pari passu* with the Indebtedness of such JV Subsidiary Guarantor under its JV subsidiary guarantee with respect to the 2022 Notes and all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantor is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture and accession deed to the Intercreditor Deed will be a “Subsidiary Guarantor.” The Other Non-Guarantor Subsidiaries, together with the PRC Non-Guarantor Subsidiaries, are referred to herein as the “Non-Guarantor Subsidiaries.”

In addition, subject to the limitations described in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to the benefit of a security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption “—Security” shared on a *pari passu* basis pursuant to the Intercreditor Deed (as defined below) with (i) the creditors and the facility agent under the 2012 Credit Agreement, (ii) the creditors and the facility agent under the 2011 Credit Agreement, (iii) the holders of and the trustee for the Convertible Bonds, (iv) the holders of the 2022 Notes and (v) holders of other Permitted *Pari Passu* Secured Indebtedness (or their representatives or agents); and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The JV Subsidiary Guarantee of each JV Subsidiary Guarantor will not be secured.

Under the Intercreditor Deed and any accession deed to the Intercreditor Deed, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; *provided* that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such payment as though such payment had not been made. All payments under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, or any accession deed to the Intercreditor Deed, as applicable,

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and
- each JV Subsidiary Guarantee will be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor's liability on its JV Subsidiary Guarantee, as the case may be, could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral—The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees."

Release of the Subsidiary Guarantees and JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "—Defeasance—Defeasance and Discharge";

- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale, merger or disposition of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions “—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “—Certain Covenants—Limitation on Asset Sales” and “—Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture;
- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee; or
- in the case of a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, in compliance with the terms of the Indenture.

In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with the consummation of such sale or issuance of Capital Stock, (a) instruct the Trustee to release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC will become New Non-Guarantor Subsidiaries (such that each New Non-Guarantor Subsidiary will no longer Guarantee the Notes) and (b) instruct the Common Security Agent to (i) discharge the pledge of the Capital Stock granted by each such New Non-Guarantor Subsidiary and (ii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in each such New Non-Guarantor Subsidiary (in each case, without any requirement to seek the consent or approval of the Holders of the Notes), *provided* that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the New Non-Guarantor Subsidiaries) do not account for more than 20% of the Total Assets of the Company. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% and no more than 49.9% of the issued Capital Stock of the relevant Subsidiary Guarantor, *provided* that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of

the Restricted Subsidiaries from releasing such Subsidiary Guarantee, (b) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee, or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;

- such sale is made to an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company, *provided, however*, that no such appraisal is required if the sale or issuance of Capital Stock is made within 180 days after land use rights are acquired by such Subsidiary Guarantor or any Restricted Subsidiary of such Subsidiary Guarantor;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and the Common Security Agent:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor becomes a party to the Indenture as a JV Subsidiary Guarantor and an accession deed to the Intercreditor Deed pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Common Security Agent the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including, without limitation, the "Limitation on Asset Sales" and "Limitation on Restricted Payments" covenants.

Any Net Cash Proceeds from the sale of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the "Limitation on Asset Sales" covenant.

As of the date of the Indenture, all of the Company's Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under the caption "—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its other

Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries will not Guarantee the Notes.

Security

The obligations of the Company with respect to the Notes, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees and the performance of all other obligations of the Company and the Subsidiary Guarantors under the Notes, the Subsidiary Guarantees and the Indenture will, upon the Trustee’s accession to the Intercreditor Deed on the Original Issue Date, be secured by (i) the Capital Stock of the initial Subsidiary Guarantors and (ii) the other Collateral, if any, that secures the obligations of the Company and any Subsidiary Guarantor under any other Permitted Pari Passu Secured Indebtedness from time to time (the “Other Collateral”) (subject to Permitted Liens and the Intercreditor Deed).

The Company has pledged, or caused the initial Subsidiary Guarantors Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors (other than Giant Profit) and the Other Collateral in order to secure the obligations of the Company and the Subsidiary Guarantors under the 2011 Credit Agreement and related subsidiary guarantees, the 2012 Credit Agreement and related subsidiary guarantees, the Convertible Bonds, the Notes, the 2022 Notes and the Subsidiary Guarantees and other Permitted Pari Passu Secured Indebtedness.

The initial Subsidiary Guarantor Pledgors are Aqualand Group Limited, Ample Chance Group Limited, Charmed Strength Group Limited, Elite Villa Group Limited, Eradore International Limited, Full Support Group Limited, High Chance Group Limited, Increase Insight Group Limited, Key Position International Limited, Meath International Limited, Promised Gain Group Limited, Truthful Mind Group Limited, Shimmer Win International Limited, SOHO China (BVI-7) Limited, and SOHO China (BVI-11) Limited, SOHO China (Hong Kong) Limited, SOHO Exchange Limited and Winner Joy Group Limited.

None of the Capital Stock of the Non-Guarantor Subsidiaries and Giant Profit (for so long as its Capital Stock is held by a Restricted Subsidiary incorporated in the PRC) will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future. If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Common Security Agent for itself and for the benefit of the Trustee.

The Company has also agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary or additional shares of Capital Stock acquired or otherwise received by the Company or such Subsidiary Guarantor of any existing Restricted Subsidiary (in each case, other than Persons organized under the laws of the PRC or Other Non-Guarantor Subsidiaries) after the Original Issue Date, as soon as practicable but in any event within 30 days after such Person becomes a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of the Subsidiary Guarantors under the Subsidiary Guarantees, in the manner described above.

Each Subsidiary Guarantor that pledges capital stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

The Collateral will be shared on a *pari passu* basis pursuant to the Intercreditor Deed (as defined below) by the holders of the Notes, the holders of the 2022 Notes, the finance parties under the 2012 Credit Agreement, the finance parties under the 2011 Credit Agreement, the holders of and the trustee for the Convertible Bonds and the holders of other Permitted *Pari Passu* Secured Indebtedness (or their representatives or agents). In the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds and any other proceeds recovered by any secured creditor who is subject to the Intercreditor Deed would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness.

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Deed) is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantors' obligations under the Notes and the Subsidiary Guarantees (as reduced by the obligations owed to other secured creditors under the Intercreditor Deed), and the Collateral securing the Notes and such Subsidiary Guarantees (as reduced by the obligations owed to other secured creditors under the Intercreditor Deed) may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See “—Release of Security” and “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral—The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other *pari passu* secured indebtedness.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture, the Intercreditor Deed and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees (as reduced by the obligations owed to other secured creditors under the Intercreditor Deed). By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Event of Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted *Pari Passu* Secured Indebtedness

On or after the Original Issue Date, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) or any Subsidiary Guarantor and any *Pari Passu* Subsidiary Guarantee of any Subsidiary Guarantor with respect to such Indebtedness (such Indebtedness of the Company or Subsidiary Guarantor and any such *Pari Passu* Subsidiary Guarantee, “Permitted *Pari Passu* Secured Indebtedness”); *provided* that (1) the Company or such Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant under the caption “—Limitation on Indebtedness and Preferred Stock,” (2) the holders of such Indebtedness (or their representative or agent) become party to the Intercreditor Deed referred to below; and (3) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee an Opinion of Counsel and Officers' Certificate with respect to corporate and collateral matters in connection with the Security Documents, in form and substance reasonably satisfactory to the Trustee. The Trustee will be permitted and authorized, without the consent of any Holder, to enter into any amendment to the Security Documents, the Intercreditor Deed or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral

to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph and the terms of the Indenture (including, without limitation, the appointment of any common security agent under the Intercreditor Deed referred to below to hold the Collateral on behalf of the Holders).

Notwithstanding the above, the indebtedness under the 2012 Credit Agreement and the 2011 Credit Agreement and the Convertible Bonds will constitute Permitted Pari Passu Indebtedness and share in the Collateral beginning from the date on which the first security under the Security Documents was granted.

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Deed

The Trustee, on its behalf and on behalf of the Holders, will accede on the Original Issue Date to a security trust and intercreditor deed dated June 24, 2011 (the “Intercreditor Deed”) that governs the relationship among the Holders, the holders of the 2022 Notes, the finance parties under the 2012 Credit Agreement, the finance parties under the 2011 Credit Agreement, the holders of and the trustee for the Convertible Bonds and the holders of any other Permitted Pari Passu Secured Indebtedness (or their representatives or agents).

Under the Indenture and the Intercreditor Deed, the Trustee (together with any other Secured Creditors) will appoint or have appointed the Common Security Agent as security agent with respect to the Collateral securing the obligations of the Issuer and the Subsidiary Guarantors under the Indenture, the Subsidiary Guarantees and any Permitted Pari Passu Secured Indebtedness, to exercise remedies in respect thereof upon the occurrence of an Event of Default under the Notes and the Indenture that has caused the Holders to declare the Notes to be due and payable prior to its Stated Maturity, or upon an event of default under any Permitted Pari Passu Secured Indebtedness that has caused the holders thereof to declare such Permitted Pari Passu Secured Indebtedness to be due and payable prior to its Stated Maturity, and to act as otherwise specified in the Intercreditor Deed.

The Intercreditor Deed provides and, with respect to the Notes upon the Trustee’s accession to the Intercreditor Deed, will provide, among other things (1) that the Secured Creditors shall share equal priority and *pro rata* entitlement in and to the Collateral; (2) the conditions that are applicable to the release of or granting of any Lien on such Collateral; and (3) the conditions under which they will enforce their respective rights with respect to such Collateral and the Indebtedness secured thereby.

Prior to the first Incurrence of any future Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the holders of such Permitted Pari Passu Secured Indebtedness (or their representative or agent) will accede to the Intercreditor Deed to include the holders (or their representatives or agents) of such Permitted Pari Passu Secured Indebtedness as parties to the Intercreditor Deed.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Deed, any supplements, amendments or modifications thereto, and any future intercreditor agreement that may be required under the terms of the Indenture or necessary to give effect to the provisions of the Indenture. The Intercreditor Deed is governed by and construed in accordance with Hong Kong law.

Enforcement of Security

The Liens (subject to Permitted Liens) securing the Notes and the Subsidiary Guarantees, will be granted to the Common Security Agent for itself and for the benefit of the Secured Creditors. The Common Security Agent, subject to the Intercreditor Deed, will hold such Liens and security interests in the Collateral granted

pursuant to the Security Documents with sole authority as directed by the written instruction of the Secured Creditors to exercise remedies under the Security Documents. The Trustee has agreed to act as secured creditor representative on behalf of the holders under the applicable Security Documents, to follow, or cause to be followed, the instructions provided to it under the Indenture, the Intercreditor Deed and the Security Documents and to carry out certain other duties.

The Indenture, the Intercreditor Deed and/or the Security Documents principally provide that, at any time while the Notes are outstanding, the Common Security Agent has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

The Intercreditor Deed provides that the Common Security Agent will enforce the Collateral in accordance with a written instruction by any Secured Creditor Representative to do so if it does not identify a conflict between the Secured Creditors' interests or a conflict between instructions (in the event at least two Secured Creditors issue instructions), and in the case of conflicting instructions delivered by two or more Secured Creditors Representatives, the Common Security Agent will only enforce the Collateral upon receiving written instructions from the Secured Creditors Representatives as to which instruction with which the Common Security Agent should comply (a "Notice of Conflict"), *provided* that the Common Security Agent may refuse to take any action under the Intercreditor Deed until the earlier of (i) the date on which the Common Security Agent considers that such conflict is no longer continuing, (ii) the date it receives a final order, judgment or decree rendered by any court of competent jurisdiction (which order, judgment or decree must not be capable of being subject to appeal) resolving such conflict, (iii) the date it receives an agreement signed by each Secured Creditors Representative resolving such conflict and (iv) the date it receives instructions from the Secured Creditors Representatives representing the Majority Secured Debt in response to the relevant Notice of Conflict. See "Risk Factors—Risks Relating to the Subsidiary Guarantees and the Collateral—The Intercreditor Deed may limit the rights of holders of the Notes to enforce the Collateral."

All payments received and all amounts held by the Common Security Agent in respect of the Collateral under the Security Documents will be, subject to the Intercreditor Deed, applied as follows:

first, in or towards payment of any unpaid fees, costs and expenses of the Common Security Agent and any receiver, attorney or agent appointed under the Security Documents or any security documents securing the 2012 Credit Agreement, the 2011 Credit Agreement, the Convertible Bonds, the 2022 Notes and any other Permitted Pari Passu Secured Indebtedness;

second, in or towards payment of any fees, costs and expenses of any Secured Creditor;

third, in or towards payment to the Common Security Agent for application against the Notes, the 2022 Notes and all Permitted Pari Passu Secured Indebtedness, pro rata to the amount of indebtedness owned to each Secured Creditor as at the date on which the proceeds are applied; and

fourth, the payment of the surplus (if any) to the Company, the relevant Subsidiary Guarantor or any other person entitled to it.

The Common Security Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification to its satisfaction. In addition, the Common Security Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Common Security Agent's Liens on the Collateral. The Common Security Agent is not responsible to any Secured Creditor for (i) the adequacy, accuracy or completeness of any Security Document, (ii) the legality, validity, effectiveness, adequacy, completeness or enforceability of any Security Document, (iii)(a) any failure in perfecting or protecting any security created

under the Security Documents (including any failure to make any necessary registration, recording or filing of or otherwise protect such security under any law in any jurisdiction, give notice to any person of the execution of any Security Document or obtain any authorization for the creation of such security) or (b) any other action taken or not taken by it in connection with any Security Document, unless directly caused by its gross negligence or willful misconduct or (iv) the right or title of any person in or to, or the value of, or sufficiency of any part of any security created under the Security Documents, the priority of any such security or the existence of any other security interest affecting any asset secured under any Security Document or any security document securing any Permitted Pari Passu Secured Indebtedness.

Without limiting the liability of the Company or any Subsidiary Guarantor under the Notes, the 2022 Notes, the 2012 Credit Agreement, the 2011 Credit Agreement, the Convertible Bonds or any other agreement governing Permitted Pari Passu Secured Indebtedness, each Secured Creditor must indemnify the Common Security Agent for that Secured Creditor's share of any loss or liability incurred by the Common Security Agent in acting as Common Security Agent (unless the Common Security Agent has been reimbursed by the Company or any Subsidiary Guarantor), except to the extent that the loss or liability is caused by the Common Security Agent's gross negligence or willful misconduct. A Secured Creditor's share of any loss or liability will be the proportion which the aggregate of amount of the Permitted Pari Passu Secured Indebtedness owing to it and available to be drawn from it under the Notes, the 2012 Credit Agreement, the 2011 Credit Agreement, the Convertible Bonds and any other agreement governing permitted Pari Passu Secured Indebtedness bears to all of the Permitted Pari Passu Secured Indebtedness then owing and available to be drawn.

This section, "—Enforcement of Security," shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with "—Permitted Pari Passu Secured Indebtedness" above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption "—Defeasance—Defeasance and Discharge";
- upon certain dispositions of the Collateral in compliance with the covenants under the captions "—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" or "—Limitation on Asset Sales" or in accordance with the provision under the caption "—Consolidation, Merger and Sale of Assets";
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture;
- in connection with and upon execution of a JV Subsidiary Guarantee to replace a Subsidiary Guarantee, with respect to all pledges of Capital Stock granted by such JV Subsidiary Guarantor in its direct and indirect Subsidiaries, and in accordance with the terms of the Indenture; or
- with respect to a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, the release of the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Non-Guarantor Subsidiary.

The security created in respect of the Other Collateral granted under the Security Documents may be released in respect of the Notes if it is released under all Permitted Pari Passu Secured Indebtedness.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees and JV Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock” covenant described below.

Optional Redemption

At any time and from time to time on or after November 7, 2015, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on November 7 of each of the years indicated below.

<u>Year</u>	<u>Redemption Price</u>
2015	102.8750%
2016	101.4375%

At any time prior to November 7, 2015, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption.

At any time and from time to time prior to November 7, 2015, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 105.750% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed; or

- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion deems to be fair and appropriate.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a “Change of Control Offer”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company’s failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company’s ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company’s and the Subsidiary Guarantors’ then—existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors—Risks Relating to the Notes—We may not be able to repurchase the Notes upon a Change of Control Triggering Event.”

The phrase “all or substantially all,” as used with respect to the assets of the Company in the definition of “Change of Control,” will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “—Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, if applicable, the PRC (each, as applicable, a “Relevant Jurisdiction”), or the jurisdiction through which payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note, and the Relevant Jurisdiction or the jurisdiction through which payments are made, other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person, any Subsidiary Guarantor or any JV Subsidiary Guarantor addressed to the Holder, to provide information concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction or the jurisdiction through which payments are made, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction

in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or

- (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction or the jurisdiction through which payments are made, unless such Note could not have been presented for payment elsewhere;
 - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction or the jurisdiction through which payments are made, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and upon reasonable notice in advance of such notice to Holders, to the Trustee and the Paying and Transfer Agent (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective (or in the case of official position, is announced) (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, in each case that is not organized or tax resident in a jurisdiction that is a Relevant Jurisdiction with respect to the relevant entity on the Original Issue Date, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, such Surviving Person, Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company or any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary (other than a Subsidiary Guarantor) may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.0 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
- (a) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee and JV Subsidiary Guarantee and indebtedness under the 2022 Notes (excluding any additional Notes) and each subsidiary guarantee and JV subsidiary guarantee;
 - (b) any Pari Passu Subsidiary Guarantees by any Subsidiary Guarantor or any JV Subsidiary Guarantor;
 - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness described in clauses (a) and (b) above and clauses (d), (f), (g) and (m) below;
 - (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d) and (ii) if the Company is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, and if a Subsidiary Guarantor or a JV Subsidiary Guarantor is the obligor on such Indebtedness and the Company is not the obligee, such Indebtedness must be expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be;
 - (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (e), (h), (o), (q), (r), (s) or (t) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of

Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, (iii) in no event may Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any JV Subsidiary Guarantor (provided that this sub-clause (iv) shall not prohibit the replacement of a Subsidiary Guarantee by a JV Subsidiary Guarantee if otherwise permitted by the Indenture);

- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; *provided* that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (q), (r), (s), (t), and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (h) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;

- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided, however*, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) Guarantees by the Company or any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, subject to the “Limitation on Issuances of Guarantees by Restricted Subsidiaries” covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding does not exceed US\$50.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (o) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$20.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (p) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement;
- (q) Indebtedness Incurred or Preferred Stock issued by the Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a PRC Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness or issuance of Preferred Stock and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness and Preferred Stock permitted by this clause (q) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clause (h) above and clauses (r), (s), (t), and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (q) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
- (r) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary, if the aggregate of all Indebtedness Incurred under this clause (r)

(together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h) and (q) above and clauses (s), (t), and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (r) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;

- (s) Bank Deposit Secured Indebtedness Incurred by the Company or any of its Restricted Subsidiaries, provided that on the date of Incurrence of such Indebtedness, the aggregate principal amount outstanding of such Indebtedness permitted by this clause (s) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q) and (r) above and clauses (t) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (s) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
 - (t) Indebtedness Incurred by any Restricted Subsidiary incorporated under the laws of the PRC which is secured by Investment Properties, and Guarantees thereof by the Company or any such Restricted Subsidiary; provided that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (t) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q), (r) and (s) above and clause (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (t) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
 - (u) Indebtedness Incurred by the Company constituting a Subordinated Shareholder Loan; and
 - (v) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Minority Interest Staged Acquisition Agreement; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (v) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q), (r), (s) and (t) above and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (v) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (1), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.
- (4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any

outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies, *provided* that such Indebtedness was permitted to be Incurred at the time of such Incurrence.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable or paid in shares of the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment;

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

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock”; or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date, shall exceed the sum of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on October 1, 2012 and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
 - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the

conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus

- (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Original Issue Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
- (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Original Issue Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (C) to the extent that an Investment made after the Original Issue Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person; plus
- (v) US\$50.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash

Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);

- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);
- (5) any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;
- (6) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing), provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US\$25 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (7) the purchase of Capital Stock of a Person pursuant to a Staged Acquisition Agreement or a Minority Staged Acquisition Agreement;
- (8) dividends paid to, or the purchase of Capital Stock of any PRC Restricted Subsidiary held by any Trust Company Investor in respect of any Indebtedness outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(q) of the “Limitation on Indebtedness and Preferred Stock” covenant;
- (9) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, provided, however, that any such cash payment shall not be for the purpose of evading the limitation of this “—Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (10) the declaration and payment of dividends on the Common Stock of the Company by the Company in an aggregate amount not to exceed 30% of the Consolidated Net Income of the Company for the fiscal year ended December 31, 2012; or
- (11) the repurchase of Common Stock of the Company on The Stock Exchange of Hong Kong Limited in an aggregate amount of up to US\$300 million during the period beginning on the Original Issue Date and ending on December 31, 2014 pursuant to the general mandate granted by the shareholders of the Company to the Board of Directors at the annual general meeting of the Company held on May 18, 2012;

provided that, in the case of clause (2), (3), (4), (10) or (11) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment made pursuant to clause (1) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “—Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

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

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) through (11) above), the Company will deliver to the Trustee an Officers’ Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this “—Limitation on Restricted Payments” covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, the 2022 Notes and the subsidiary guarantees and JV subsidiary guarantees thereof, the indenture for the 2022 Notes, the 2022 Notes Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor or any JV Subsidiary Guarantor, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

- (b) existing under or by reason of applicable law, rule, regulation or order;
- (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “—Limitation on Indebtedness and Preferred Stock” and “—Limitation on Asset Sales” covenants;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or issuance of Preferred Stock permitted under paragraph (1) or of the type described under clause (2)(h), (2)(n), (2)(o), (2)(p), (2)(q), (2)(r), (2)(s), (2)(t) or 2(v) of the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (g) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee; or

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

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

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

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) for the issuance or sale of the Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "—Limitation on Restricted Payments" covenant if made on the date of such issuance or sale and provided that the Company complies with the "—Limitation on Asset Sales" covenant; or
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "—Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any Subsidiary Guarantor, unless (1)(a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture, pursuant to which it becomes a party to the Indenture and an accession deed to the Intercreditor Deed providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (2) (d) and (s) (in the case of clause (2)(s), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of one or more bank accounts to secure any Bank Deposit Secured Indebtedness), under the caption "—Limitation on Indebtedness and Preferred Stock."

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an "Affiliate Transaction"), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

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

- (1) the payment of reasonable and customary regular fees and other compensation for the service as board members to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;

- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption “—Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (6) of the second paragraph of the “Limitation on Restricted Payments” covenant; and
- (7) loans or advances to employees, officers or directors in the ordinary course of business not to exceed US\$2.5 million in the aggregate at any one time outstanding.

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

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

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

- (1) the Company or any Restricted Subsidiary could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under “—Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “—Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under the caption “—Limitation on Asset Sales.”

Limitation on Asset Sales

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

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$50.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
 - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

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

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary;
- (2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or Replacement Assets; or
- (3) make an Investment in cash or Temporary Cash Investments pending application of such Net Cash Proceeds as set forth in clause (1) or (2) above.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute “Excess Proceeds.” Excess Proceeds of less than US\$20.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$20.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

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

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated,

under the caption “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

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

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “—Limitation on Indebtedness and Preferred Stock”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “—Limitation on Liens”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which it becomes a party to the Indenture and an accession deed to the Intercreditor Deed by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor.

Government Approvals and Licenses; Compliance with Law

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

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both of the Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from at least two Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (2) “—Certain Covenants—Limitation on Restricted Payments”;
- (3) “—Certain Covenants—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “—Certain Covenants—Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “—Certain Covenants—Limitation on the Company’s Business Activities”;
- (7) “—Certain Covenants—Limitation on Sale and Leaseback Transactions”; and
- (8) “—Certain Covenants—Limitation on Asset Sales.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “—Certain Covenants—Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's ordinary shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee
 - (a) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarters and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation, *provided* that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and
 - (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under “—Consolidation, Merger and Sale of Assets,” the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions “—Repurchase of Notes upon a Change of Control Triggering Event” or “—Limitation on Asset Sales,” or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption “—Security”;
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes or under the Intercreditor Deed (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary (other than a Subordinated Shareholder Loan) having an outstanding principal amount of US\$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$10.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company’s insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for any substantial part of the property and assets of the Company or any Significant Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any Significant Subsidiary (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for all or substantially all of the property and assets of the Company or any Significant Subsidiary or (c) effects any general assignment for the benefit of creditors;
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;

- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents or the Intercreditor Deed, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or Intercreditor Deed or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a security interest in the Collateral (subject to any Permitted Liens).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of the Holders of Notes waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, foreclose on the Collateral in accordance with the terms of the Security Documents and the Intercreditor Deed and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See “—Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In

addition, the Trustee will not be required to expend its own funds in following such direction if it does not reasonably believe that reimbursement and/or satisfactory indemnification is assured to it.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture unless security and/or indemnity satisfactory to the Trustee against any loss, liability or expense shall have been offered to the Trustee. A Holder of Notes may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the written request and the offer of indemnity and/or security; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "—Provision of Financial Statements and Reports."

Consolidation, Merger and Sale of Assets

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

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;

- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “—Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries’ properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor); and shall expressly assume, by a supplemental indenture to the Indenture and an accession deed to the Intercreditor Deed, executed and delivered to the Trustee and the Common Security Agent, all the obligations of such Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4) of this paragraph) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this covenant and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “—Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “—The Subsidiary Guarantees—Release of the Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee (or its agent), in trust, money and/or U.S. Government Obligations or any combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity for such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;
- (2) the Company has delivered to the Trustee an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Subsidiary Guarantees and JV Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph, and clauses (3), (4), (5)(x) and (6) under the second paragraph under “—Consolidation, Merger and Sale of Assets” and all the covenants described herein under “—Certain Covenants,” other than as described under “—Certain Covenants—Government Approvals and Licenses; Compliance with Law” and “—Certain Covenants—Anti-Layering,” clause (3) under “Events of Default” with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph, and clauses (3), (4), (5)(x) and (6) under the second paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “Events of Default” with respect to such other covenants and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and

principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, and the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture, the Intercreditor Deed or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Deed or any Security Document;
- (2) comply with the provisions described under “—Consolidation, Merger and Sale of Assets”;
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor and the corresponding Collateral as provided or permitted by the terms of the Indenture;
- (7) add additional collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (8) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (9) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream or any applicable securities depository;
- (10) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee to supplement or amend the Intercreditor Deed, the Security Documents or the Indenture and

take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);

- (11) make any other change that does not materially and adversely affect the rights of any Holder; or
- (12) conform the text of the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees to any provision of this “Description of the 2017 Notes” to the extent that such provision in this “Description of the 2017 Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees.

Amendments With Consent of Holders

The Indenture, the Intercreditor Deed or any Security Document may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in aggregate principal amount of the outstanding Notes waive future compliance by the Company with any provision thereof; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Intercreditor Deed, the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of the Intercreditor Deed, any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be

made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;

- (13) change the redemption date or the redemption price of the Notes from that stated under the captions “—Optional Redemption” or “—Redemption for Taxation Reasons”;
- (14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees, or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Agents

The Bank of New York Mellon, London Branch has been appointed as Trustee under the Indenture and, and Industrial and Commercial Bank of China (Macau) Limited has been appointed as Common Security Agent with respect to the Collateral under the Intercreditor Deed and other Security Documents. The Bank of New York Mellon (Luxembourg) S.A. has been appointed as the note registrar (the “Note Registrar”) and The Bank of New York Mellon, London Branch has been appointed as the paying and transfer agent (the “Paying Agent” and together with the Trustee and Note Registrar, the “Agents”) with regard to the Notes. Except during the continuance of a Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenant or obligation shall be read into the Indenture against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Company and its Affiliates; *provided, however*; that if it acquires any conflicting interest, it must eliminate such conflict or resign.

None of the Trustee, the Paying Agent, the Note Registrar, or the Common Security Agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for (i) the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Intercreditor Deed or other Security Documents, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or (ii) for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so except as a result of the Common Security Agent's own fraud, gross negligence or willful misconduct.

The Bank of New York Mellon, London Branch will initially act as Trustee and Industrial and Commercial Bank of China (Macau) Limited will initially act as the Common Security Agent under the Security Documents in respect of the Lien over the Collateral. The Common Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee and the Common Security Agent may have obligations under the Intercreditor Deed or other Security Documents that are in conflict with the interests of the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the Common Security Agent will be under any obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the Common Security Agent indemnity and/or security satisfactory to the Trustee and/or the Common Security Agent against any loss, liability or expense.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, the Company will maintain at least one paying agent in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

Industrial and Commercial Bank of China (Macau) Limited will initially act as the Common Security Agent under the Security Documents in respect of the security over the Collateral. The Common Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture, the Intercreditor Deed and the Security Documents. Under certain circumstances, the Common Security Agent may have obligations under the Security Documents, the Indenture or the Intercreditor Deed that are in conflict with the interests of the Trustee, the Holders, the creditors and facility agent under the 2012 Credit Agreement, the creditors and facility agent under the 2011 Credit Agreement, the holders of and the trustee for the Convertible Bonds and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the Common Security Agent will be under any obligation to exercise any rights or powers conferred under the Indenture, the Intercreditor Deed or any other Security Document for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the Common Security Agent indemnity and/or security satisfactory to it against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee, the other Agents and the Common Security Agent, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee, the other Agents or the Common Security Agent in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “Initial Global Note”). On the Original Issue Date, the Initial Global Note will be deposited with a common depositary and registered in the name of the common depositary or its nominee for the accounts of Euroclear and Clearstream. Any additional Notes will be represented by additional global notes in registered form without interest coupons attached (the “Additional Global Notes” and, together with the Initial Global Note, the “Global Notes”).

Global Notes

Ownership of beneficial interests in the Global Notes (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “—Certificated Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Notes for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Notes

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and Additional Amounts) will be made to the Paying Agent. The Paying Agent will, in turn, make such payments to the common depositary for Euroclear and/or Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “—Additional Amounts.”

Under the terms of the Indenture, the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Notes (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee, the Agents or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear,

Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or

- any action or failure to take action by Euroclear, Clearstream or any participant or indirect participant in connection with distributing the payments made by the Company, the Subsidiary Guarantors or the JV Subsidiary Guarantors on the Global Notes.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the common depository will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depository, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided*, however, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in a Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of any Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Notes for certificated notes in certificated form, and to distribute such certificated notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of certificated notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Notes will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will

thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the applicable settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee, the Agents or any of their respective agents will have responsibility for the performance by Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Certificated Notes

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “—Events of Default” and the Company has received a written request from a Holder, the Company will issue certificated notes in registered form in exchange for the Global Notes. Upon receipt of such notice from the common depository, Euroclear, Clearstream or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Notes for certificated notes and cause the requested certificated notes to be

executed and delivered to the registrar in sufficient quantities and authenticated by the Trustee or an authenticating agent for delivery to Holders. Persons exchanging interests in a Global Note for certificated notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by the Company and the registrar to complete, execute and deliver such certificated notes. In all cases, certificated notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Certificated notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the mails of the relevant jurisdiction (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor, the Note Registrar, the Paying Agent or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, the Indenture or any transaction contemplated thereby; and (2) designate and appoint National Corporate Research, Ltd. located at 10E. 40th Street, 10th Floor, New York, New York 10016 for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York. The Subsidiary Guarantees and any JV Subsidiary Guarantees will be governed by the laws of Hong Kong. The Intercreditor Deed is governed by the laws of Hong Kong. The relevant pledge documents pursuant to “—Security” will be governed under the laws of the jurisdiction in which the relevant Subsidiary Guarantor is incorporated.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the 2017 Notes” for which no definition is provided.

“2011 Credit Agreement” means the credit agreement dated June 22, 2011 among the Company, Standard Chartered Bank (Hong Kong) Limited as facility agent, Industrial and Commercial Bank of China (Macau) Limited as security agent and the financial institutions party thereto, as amended prior to the Original Issue Date.

“2012 Credit Agreement” means the credit agreement dated June 5, 2012 among the Company, Standard Chartered Bank (Hong Kong) Limited as facility agent and the financial institutions party thereto, as amended prior to the Original Issue Date.

“2022 Notes” means any and all outstanding notes of the US\$400,000,000 7.125% Senior Notes due 2022 of the Company.

“2022 Notes Security Documents” means “Security Documents” as defined under the indenture governing the 2022 Notes.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (i) the redemption price of such Note on November 7, 2015 (such redemption price being set forth in the table appearing above under the caption “—Optional Redemption”), plus (ii) all required remaining scheduled interest payments due on such Note through November 7, 2015 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale or issuance of Capital Stock of a Restricted Subsidiary or sale of Capital Stock of any other Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “—Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “—Consolidation, Merger and Sale of Assets”;
- (7) sales or other dispositions of cash or Temporary Cash Investments; and
- (8) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts of the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange U.S. dollars or Hong Kong dollars into Renminbi or vice versa.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person or the merger, amalgamation or consolidation of another Person with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;
- (2) the Permitted Holders are the beneficial owners of less than 30% of the total voting power of the Voting Stock of the Company;
- (3) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the U.S. Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the U.S. Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose nomination to the board of directors was approved by a vote of at least a majority of the directors then still in office who were either directors on the Original Issue Date or whose nomination was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least one Rating Agency, a Rating Decline.

“Clearstream” means Clearstream Banking, *société anonyme*, Luxembourg.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors and the other collateral securing the 2011 Credit Agreement and/or the 2012 Credit Agreement and/or the Convertible Bonds.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

“Common Security Agent” means Industrial and Commercial Bank of China (Macau) Limited as common security agent under the Intercreditor Deed.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to November 7, 2015 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to November 7, 2015.

“Comparable Treasury Price” means, with respect to any redemption date:

- (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities”; or
- (2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

“Consolidated Assets” means, with respect to any Restricted Subsidiary at any date of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of that Restricted Subsidiary and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements).

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets not included in the calculation of Consolidated EBITDA), and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP),

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees) and (7) any capitalized interest, *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
 - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;

- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after tax extraordinary or non-recurring gains;

provided that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income; (B) for purposes of this Consolidated Net Income calculation (but not for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio) any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the original cost basis and the cash sale price shall be added to Consolidated Net Income to the extent not already included in the net income for such period as determined in conformity with GAAP and Consolidated Net Income and (C) solely for the purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains on Investment Properties arising from fair value adjustments made in conformity with GAAP shall be added to Consolidated Net Income.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available fiscal quarter, semi-annual or annual consolidated balance sheet (which may be an internal consolidated balance sheet) of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Convertible Bonds” means the Company’s HK\$2,800,000,000 3.75% convertible bonds due 2014.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “—Limitation on Asset Sales” and “—Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “—Limitation on Asset Sales” and “—Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“EIT Law” means the Enterprise Income Tax Law promulgated and adopted on March 16, 2007 by the National People’s Congress of the PRC, which came into effect on January 1, 2008.

“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, *provided* that, such borrowings are not reflected on the consolidated balance sheet of the Company.

“Equity Offering” means (i) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; *provided* that any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) results in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of the Fair Market Value of total assets

for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of recognized international standing appointed by the Company.

“Fitch” means Fitch Ratings, Inc. and its affiliates or successors.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Four Fiscal Quarter”) to (2) the aggregate Consolidated Fixed Charges during such Four Fiscal Quarter Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Fiscal Quarter and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Fiscal Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay such Indebtedness;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be

based upon the four full fiscal quarter periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“Giant Profit” means Giant Profit (Hong Kong) Limited, a company incorporated under the laws of Hong Kong.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;

- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligation, pre-sale receipts in advance from customers or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business, or Entrusted Loans; *provided* that such item is not reflected on the consolidated balance sheet of the Company as borrowings or indebtedness (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings or indebtedness on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (2)(f) under the “Limitation on Indebtedness and Preferred Stock” covenant, and (ii) equal to the net amount payable by such Person if such Hedging Obligation terminated at that time if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Initial Other Non-Guarantor Subsidiaries” means Star Well Industrial Limited (星潤實業有限公司), Fancy Express Investment Limited (宜通投資有限公司), Top Keen Investment Limited (高銳投資有限公司), Sure Fancy Investment Limited (保怡投資有限公司) and T&T International Investment Corporation (鼎鼎國際投資股份有限公司).

“Intercreditor Deed” has the meaning set forth under “—Security.”

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

An acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of Common Stock of the Company will not be deemed an Investment.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “—” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s, or any of its successors or assigns, or a rating of “AAA,” “AA,” “A,” “BBB,” as modified by a “+” or “—” indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody’s or Fitch or two or three of them, as the case may be.

“Investment Property” means any property that is owned and held by any Restricted Subsidiary incorporated under the laws of the PRC primarily for rental yields or for capital appreciation or both, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

“Jointly Controlled Entity” means any corporation, association or other business entity of which 20% or more of the voting power of the outstanding Capital Stock is owned, directly or indirectly by the Company or a Restricted Subsidiary and such corporation, association or other business entity is treated as a “jointly controlled entity” in accordance with GAAP and is primarily engaged in a Permitted Business, and such Jointly Controlled Entity’s Subsidiaries.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor and its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “—The Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Majority Secured Debt” means, in respect of a decision under the caption “—Security—Enforcement of Security,” the decision of the Secured Creditors Representatives representing their Secured Creditors whose total outstanding principal under their secured debts which, when aggregated, exceed 50% of the total outstanding principal amount of all Secured Creditors’ secured debts.

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and

liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying and Transfer Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

On one Business Day prior to the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and upon receipt of a written order of the Company signed by an Officer, the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased

portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“Officers’ Certificate” means a certificate signed by two Officers; *provided*, however, with respect to the Officers’ Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers’ Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

“Opinion of Counsel” means a written opinion from external legal counsel selected by the Company, *provided* that such counsel shall be reasonably acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Pari Passu Subsidiary Guarantee” means a guarantee by any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); *provided* that (1) the Company was permitted to Incur such Indebtedness under the covenant under the caption “—Limitation on Indebtedness and Preferred Stock” and (2) such guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption “—Repurchase of Notes upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under the caption “—Limitation on Asset Sales” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“Permitted Businesses” means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company and its Restricted Subsidiaries on the Original Issue Date.

“Permitted Holders” means any or all of the following:

- (1) Pan Shiyi or Zhang Xin;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Persons specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary, directly or indirectly through one or more other Restricted Subsidiaries, that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged, directly or indirectly through one or more other Restricted Subsidiaries, in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged, directly or indirectly through one or more other Restricted Subsidiaries, in a Permitted Business;
- (2) any Investment in cash or Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant under the caption “—Limitation on Asset Sales.”
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “—Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;

- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;
- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of business;
- (16) advances to government authorities or government-affiliated entities in the PRC in connection with the financing of primary land development in the ordinary course of business that are recorded as assets in the Company's balance sheet;
- (17) Guarantees permitted under clause 2(r) of the covenant under "—Limitation on Indebtedness and Preferred Stock";
- (18) any Investment (including any deemed Investment upon the sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person (other than a Restricted Subsidiary and other than in connection with the designation of a Restricted Subsidiary as an Unrestricted Subsidiary); *provided* that:
 - (i) the Person into which such Investment is made is primarily engaged in the Permitted Businesses;
 - (ii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (18) is a Person described in clauses (x) or (y) of the first paragraph of the covenant under the caption "—Limitation on Transactions with Shareholders and Affiliates" (other than by reason of such shareholder or partner being an officer or director of the Company or a Restricted Subsidiary or by reason of being a Restricted Subsidiary);
 - (iii) no Default has occurred and is continuing or would occur as a result of such Investment;
 - (iv) the Company or any Restricted Subsidiary own, directly or indirectly, no less than 20% of the voting power of the outstanding Voting Stock of the Person into which such Investment is made is (after giving effect to such Investment); and
 - (vi) in the case of any Investment by the Company or any Restricted Subsidiary in a Person of which less than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by the Company or its Restricted Subsidiaries, at the time of such Investment, the

Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “—Limitation of Indebtedness and Preferred Stock.”

For the avoidance of doubt, the value of each Investment made pursuant to this clause shall be valued at the time such Investment is made; and

(19) repurchase of the Notes.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations of the type described by clause (f) of

the second paragraph of the covenant under the caption “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;

- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “—Certain Covenants —Limitation on Indebtedness and Preferred Stock”; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing the 2022 Notes, the subsidiary guarantees for the 2022 Notes, any other obligations under the indenture governing the 2022 Notes, and any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “—Security—Permitted Pari Passu Secured Indebtedness”;
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (18) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;
- (19) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

- (20) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (21) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (22) Liens on the Capital Stock of a PRC Restricted Subsidiary granted by the Company or any PRC Restricted Subsidiary in favor of any Trust Company Investor in respect of, and to secure, the Indebtedness of the type described under paragraph (q) of the second paragraph of the “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant;
- (23) Liens Incurred on deposits made to secure Bank Deposit Secured Indebtedness of the type described under paragraph (s) of the second paragraph of the “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant;
- (24) Liens Incurred on deposits made to secure Entrusted Loans;
- (25) Liens securing Indebtedness of the type described under clause (2)(n) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (26) Liens securing Indebtedness Incurred under clause 2(r) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (27) Liens on Investment Properties securing Indebtedness of the Company or Restricted Subsidiary incorporated under the laws of the PRC of the type described under clause (2)(t) of the covenant described under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (28) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(p) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”; and
- (29) Liens on the Capital Stock of the Person that is to be acquired under the relevant Minority Interest Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(v) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”; and
- (30) Liens securing Indebtedness permitted to be Incurred by any PRC Restricted Subsidiary under clause (2)(o) of the covenant described under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;

provided that, with respect to the Collateral, “Permitted Liens” shall only refer to the Liens described in clauses (1), (6), (13) and (14) of this definition.

“Permitted Pari Passu Secured Indebtedness” has the meaning set forth under “—Security—Permitted Pari Passu Secured Indebtedness.”

“Permitted Subsidiary Indebtedness” means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole (excluding any Indebtedness of the Subsidiary Guarantors); *provided*

that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding Public Indebtedness and any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (b), (d), (f), (g), (m) and (p) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 15% of the Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“PRC” means the People’s Republic of China, excluding, solely for the purpose of this definition, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Public Indebtedness” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“Rating Agencies” means (1) S&P, (2) Moody’s and (3) Fitch; *provided* that if S&P, Moody’s, Fitch, two of any of the three or all three of them shall not make a rating of the Notes publicly available, one or more nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody’s, Fitch, two of any of the three or all three of them, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (4) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s and “+” and “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption “—Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under the caption “—Consolidation, Merger and Sale of Assets,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by all three of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any two of the three Rating Agencies shall be below Investment Grade;
- (b) in the event the Notes are rated by any two, but not all three, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any of such two Rating Agencies shall be below Investment Grade;
- (c) in the event the Notes are rated by one, and only one, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (d) in the event the Notes are (i) rated by less than three Rating Agencies or (ii) rated below Investment Grade by all three of the Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

“Replacement Assets” means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and is or will become, upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, a Restricted Subsidiary.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services and its successors.

“Significant Subsidiary” means the Restricted Subsidiary that would be “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of this Indenture, if any of the conditions exceeds 5 percent.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Secured Creditors” means, collectively, (i) the finance parties under the 2011 Credit Agreement; (ii) the finance parties under the 2012 Credit Agreement; (iii) the Trustee (for itself and for the benefit of the holders of the Notes); (iv) the trustee for the Convertible Bonds (for itself and for the benefit of the holders of the Convertible Bonds); and (v) (x) the holder of any other Permitted Pari Passu Secured Indebtedness (if there is only one creditor with respect to any series of Permitted Pari Passu Secured Indebtedness) or (y) the representative or agent of the holders of any Permitted Pari Passu Secured Indebtedness (if there is more than one such creditor), in each case that has become a party to the Intercreditor Deed on behalf of itself, or as the case may be, holder(s) of Permitted Pari Passu Secured Indebtedness.

“Secured Creditors Representatives” means, collectively, the Trustee, Standard Chartered Bank (Hong Kong) Limited as facility agent under the 2011 Credit Agreement, Standard Chartered Bank (Hong Kong) Limited as facility agent under the 2012 Credit Agreement and the holders (or their representatives or agents) of any Permitted Pari Passu Secured Indebtedness, in each case that are parties to the Intercreditor Deed or other similar agreements pursuant to the terms of the Indenture, if any.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Security Documents” means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Common Security Agent, the Trustee and/or any Holder in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subordinated Shareholder Loan” means any loan to the Company or any Restricted Subsidiary from Permitted Holders which (i) is subordinated in right of payment to the Notes, (ii) by its terms (and by the terms of any security into which it is convertible or for which it is exchangeable) does not mature and is not required to be repaid, pursuant to a sinking fund obligation event of default or otherwise, in whole or in part, on or prior to the date that is one year after the Stated Maturity of the Notes and (iii) does not provide any cash payment of interest.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of “Designation of Restricted and Unrestricted Subsidiaries” covenant.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, in each case maturing within one year, which in the case of obligations of, or obligations Guaranteed by, any state of the European Economic Area, shall be rated at least “A” by S&P or Moody’s;
- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided

profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits or structured deposit products with a term not exceeding six months that are principal protected with any banks or financial institutions organized under the laws of the PRC.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(h) of “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Trust Company Investor” means an Independent Third Party that is a financial institution or an insurance company organized under the laws of the PRC, or an Affiliate thereof, that Invests in any Capital Stock of a PRC Restricted Subsidiary.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

DESCRIPTION OF THE 2022 NOTES

For purposes of this “Description of the 2022 Notes” section, the term “Company” refers only to SOHO China Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined herein) is referred to as a “JV Subsidiary Guarantor.” Any references to the “Notes” in this “Description of the 2022 Notes” section are solely to the Notes contemplated to be issued pursuant to this section.

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of November 7, 2012, among the Company, the Subsidiary Guarantors, as guarantors, and The Bank of New York Mellon, London Branch, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Intercreditor Deed (as defined below), the Subsidiary Guarantees and the JV Subsidiary Guarantees. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture, the Notes, the Intercreditor Deed, the Subsidiary Guarantees and the JV Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at One Canada Square, 40th Floor, London E14 5AL, United Kingdom.

Brief Description of the 2022 Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the 2017 Notes and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “—The Subsidiary Guarantees and the JV Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;
- effectively subordinated to the other secured obligations (if any) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below).

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Notes will be secured by a pledge of the Collateral as described below under the caption “—Security” and will:

- be entitled to the benefit of a lien on the Collateral (subject to any Permitted Liens) shared on a *pari passu* basis pursuant to the Intercreditor Deed (as defined below) with (i) the holders of the 2017 Notes, (ii) the creditors and the facility agent under the 2012 Credit Agreement, (iii) the creditors and the facility agent under the 2011 Credit Agreement, (iv) the holders of and the trustee for the Convertible Bonds and (v) holders of other Permitted *Pari Passu* Secured Indebtedness (or their representatives or agents); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Company will initially issue US\$400.0 million in aggregate principal amount of the Notes, which will mature on November 7, 2022, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 7.125% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on May 7 and November 7 of each year (each an “Interest Payment Date”), commencing May 7, 2013. Interest on the Notes will be paid to Holders of record at the close of business on April 22 or October 23 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as described under “Optional Redemption” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Paying Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date.

The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “—Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the 2022 Notes” include any Additional Notes that are actually issued.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be an office of the Paying Agent currently located at One Canada Square, 40th Floor, London E14 5AL, United Kingdom), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the

Note register maintained by the Note Registrar. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees and the JV Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company's Restricted Subsidiaries other than (i) those Restricted Subsidiaries organized under the laws of the PRC (the "PRC Non-Guarantor Subsidiaries") and (ii) Initial Other Non-Guarantor Subsidiaries. All of the Subsidiary Guarantors are holding companies that do not have significant operations.

None of the PRC Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. In addition, no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future.

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC) to execute and deliver to Trustee a supplemental indenture to the Indenture, pursuant to which such Restricted Subsidiary will become a party to the Indenture and to the Common Security Agent and the Trustee an accession deed to the Intercreditor Deed, pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor, as soon as practicable and in any event within 30 days after such Person becomes a Restricted Subsidiary. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee (Restricted Subsidiaries other than those organized under the laws of the PRC that do not provide Subsidiary Guarantee or JV Subsidiary Guarantee in accordance with the Indenture, the "New Non-Guarantor Subsidiaries," and together with the Initial Other Non-Guarantor Subsidiaries, the "Other Non-Guarantor Subsidiaries") at the time such entity becomes a Restricted Subsidiary, *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 20% of the Total Assets of the Company.

Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

In the case of a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% and no more than 49.9% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase no less than 50.1% of the Capital Stock of an Independent Third Party and designate such entity as a Restricted Subsidiary, the Company may, concurrently with the consummation of such sale or purchase, provide a JV Subsidiary Guarantee (as defined below) instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee (as defined below), no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary

Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;

- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company, *provided, however*, that no such appraisal is required if the sale or issuance of Capital Stock is made within 180 days after land use rights are acquired by such JV Subsidiary Guarantor or any Restricted Subsidiary of such JV Subsidiary Guarantor;
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and the Common Security Agent, as applicable:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor (the “JV Subsidiary Guarantee”) and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC, and (B) a duly executed supplemental indenture to the Indenture pursuant to which the JV Subsidiary Guarantor will become a party to the Indenture and a duly executed accession deed to the Intercreditor Deed pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Common Security Agent for itself and for the benefit of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers’ Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantees are valid, binding and enforceable against the JV Subsidiary Guarantors providing such JV Subsidiary Guarantees (subject to customary qualifications and assumptions).

As of June 30, 2012, the Company and its consolidated subsidiaries had consolidated borrowings of approximately RMB13,573.9 million (US\$2,136.6 million), of which approximately RMB11,518.0 million (US\$1,813.0 million) was secured, capital and operating lease commitments of approximately RMB15,443.0 million (US\$2,430.8 million) and contingent liabilities of approximately RMB3,441.5 million (US\$541.7 million).

As of June 30, 2012, the Non-Guarantor Subsidiaries had total borrowings of approximately RMB6,466.4 million (US\$1,017.8 million), capital and operating lease commitments of approximately RMB15,443.0 million (US\$2,430.8 million) and contingent liabilities of approximately RMB3,441.5 million (US\$541.7 million).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with the Indebtedness of such Subsidiary Guarantor under its subsidiary guarantee with respect to the 2017 Notes and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will be limited to the JV Entitlement Amount, and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and
- will be limited to the JV Entitlement Amount, and will rank at least *pari passu* with the Indebtedness of such JV Subsidiary Guarantor under its JV subsidiary guarantee with respect to the 2017 Notes and all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantor is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture and accession deed to the Intercreditor Deed will be a “Subsidiary Guarantor.” The Other Non-Guarantor Subsidiaries, together with the PRC Non-Guarantor Subsidiaries, are referred to herein as the “Non-Guarantor Subsidiaries.”

In addition, subject to the limitations described in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to the benefit of a security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption “—Security” shared on a *pari passu* basis pursuant to the Intercreditor Deed (as defined below) with (i) the creditors and the facility agent under the 2012 Credit Agreement, (ii) the creditors and the facility agent under the 2011 Credit Agreement, (iii) the holders of and the trustee for the Convertible Bonds, (iv) the holders of the 2017 Notes and (v) holders of other Permitted *Pari Passu* Secured Indebtedness (or their representatives or agents); and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The JV Subsidiary Guarantee of each JV Subsidiary Guarantor will not be secured.

Under the Intercreditor Deed and any accession deed to the Intercreditor Deed, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; *provided* that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such payment as though such payment had not been made. All payments under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, or any accession deed to the Intercreditor Deed, as applicable,

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and
- each JV Subsidiary Guarantee will be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor's liability on its JV Subsidiary Guarantee, as the case may be, could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral—The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees."

Release of the Subsidiary Guarantees and JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "—Defeasance—Defeasance and Discharge";

- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale, merger or disposition of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions “—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “—Certain Covenants—Limitation on Asset Sales” and “—Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture;
- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee; or
- in the case of a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, in compliance with the terms of the Indenture.

In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with the consummation of such sale or issuance of Capital Stock, (a) instruct the Trustee to release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC will become New Non-Guarantor Subsidiaries (such that each New Non-Guarantor Subsidiary will no longer Guarantee the Notes) and (b) instruct the Common Security Agent to (i) discharge the pledge of the Capital Stock granted by each such New Non-Guarantor Subsidiary and (ii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in each such New Non-Guarantor Subsidiary (in each case, without any requirement to seek the consent or approval of the Holders of the Notes), *provided* that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the New Non-Guarantor Subsidiaries) do not account for more than 20% of the Total Assets of the Company. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% and no more than 49.9% of the issued Capital Stock of the relevant Subsidiary Guarantor, *provided* that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of

the Restricted Subsidiaries from releasing such Subsidiary Guarantee, (b) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee, or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;

- such sale is made to an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company, *provided, however*, that no such appraisal is required if the sale or issuance of Capital Stock is made within 180 days after land use rights are acquired by such Subsidiary Guarantor or any Restricted Subsidiary of such Subsidiary Guarantor;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and the Common Security Agent:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor becomes a party to the Indenture as a JV Subsidiary Guarantor and an accession deed to the Intercreditor Deed pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Common Security Agent the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including, without limitation, the "Limitation on Asset Sales" and "Limitation on Restricted Payments" covenants.

Any Net Cash Proceeds from the sale of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the "Limitation on Asset Sales" covenant.

As of the date of the Indenture, all of the Company's Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under the caption "—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its other

Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries will not Guarantee the Notes.

Security

The obligations of the Company with respect to the Notes, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees and the performance of all other obligations of the Company and the Subsidiary Guarantors under the Notes, the Subsidiary Guarantees and the Indenture will, upon the Trustee’s accession to the Intercreditor Deed on the Original Issue Date, be secured by (i) the Capital Stock of the initial Subsidiary Guarantors and (ii) the other Collateral, if any, that secures the obligations of the Company and any Subsidiary Guarantor under any other Permitted Pari Passu Secured Indebtedness from time to time (the “Other Collateral”) (subject to Permitted Liens and the Intercreditor Deed).

The Company has pledged, or caused the initial Subsidiary Guarantors Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors (other than Giant Profit) and the Other Collateral in order to secure the obligations of the Company and the Subsidiary Guarantors under the 2011 Credit Agreement and related subsidiary guarantees, the 2012 Credit Agreement and related subsidiary guarantees, the Convertible Bonds, the Notes, the 2017 Notes and the Subsidiary Guarantees and other Permitted Pari Passu Secured Indebtedness.

The initial Subsidiary Guarantor Pledgors are Aqualand Group Limited, Ample Chance Group Limited, Charmed Strength Group Limited, Elite Villa Group Limited, Eradore International Limited, Full Support Group Limited, High Chance Group Limited, Increase Insight Group Limited, Key Position International Limited, Meath International Limited, Promised Gain Group Limited, Truthful Mind Group Limited, Shimmer Win International Limited, SOHO China (BVI-7) Limited, and SOHO China (BVI-11) Limited, SOHO China (Hong Kong) Limited, SOHO Exchange Limited and Winner Joy Group Limited.

None of the Capital Stock of the Non-Guarantor Subsidiaries and Giant Profit (for so long as its Capital Stock is held by a Restricted Subsidiary incorporated in the PRC) will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future. If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Common Security Agent for itself and for the benefit of the Trustee.

The Company has also agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary or additional shares of Capital Stock acquired or otherwise received by the Company or such Subsidiary Guarantor of any existing Restricted Subsidiary (in each case, other than Persons organized under the laws of the PRC or Other Non-Guarantor Subsidiaries) after the Original Issue Date, as soon as practicable but in any event within 30 days after such Person becomes a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of the Subsidiary Guarantors under the Subsidiary Guarantees, in the manner described above.

Each Subsidiary Guarantor that pledges capital stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

The Collateral will be shared on a *pari passu* basis pursuant to the Intercreditor Deed (as defined below) by the holders of the Notes, the holders of the 2017 Notes, the finance parties under the 2012 Credit Agreement, the finance parties under the 2011 Credit Agreement, the holders of and the trustee for the Convertible Bonds and the holders of other Permitted *Pari Passu* Secured Indebtedness (or their representatives or agents). In the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds and any other proceeds recovered by any secured creditor who is subject to the Intercreditor Deed would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness.

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Deed) is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantors' obligations under the Notes and the Subsidiary Guarantees (as reduced by the obligations owed to other secured creditors under the Intercreditor Deed), and the Collateral securing the Notes and such Subsidiary Guarantees (as reduced by the obligations owed to other secured creditors under the Intercreditor Deed) may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See “—Release of Security” and “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral—The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other *pari passu* secured indebtedness.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture, the Intercreditor Deed and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees (as reduced by the obligations owed to other secured creditors under the Intercreditor Deed). By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Event of Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) or any Subsidiary Guarantor and any *Pari Passu* Subsidiary Guarantee of any Subsidiary Guarantor with respect to such Indebtedness (such Indebtedness of the Company or Subsidiary Guarantor and any such *Pari Passu* Subsidiary Guarantee, “Permitted *Pari Passu* Secured Indebtedness”); *provided* that (1) the Company or such Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant under the caption “—Limitation on Indebtedness and Preferred Stock,” (2) the holders of such Indebtedness (or their representative or agent) become party to the Intercreditor Deed referred to below; and (3) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee an Opinion of Counsel and Officers' Certificate with respect to corporate and collateral matters in connection with the Security Documents, in form and substance reasonably satisfactory to the Trustee. The Trustee will be permitted and authorized, without the consent of any Holder, to enter into any amendment to the Security Documents, the Intercreditor Deed or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted *Pari Passu* Secured Indebtedness in accordance with this paragraph and the terms of the Indenture (including, without limitation, the appointment of any common security agent under the Intercreditor Deed referred to below to hold the Collateral on behalf of the Holders).

Notwithstanding the above, the indebtedness under the 2012 Credit Agreement and the 2011 Credit Agreement and the Convertible Bonds will constitute Permitted Pari Passu Indebtedness and share in the Collateral beginning from the date on which the first security under the Security Documents was granted.

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Deed

The Trustee, on its behalf and on behalf of the Holders, will accede on the Original Issue Date to a security trust and intercreditor deed dated June 24, 2011 (the “Intercreditor Deed”) that governs the relationship among the Holders, the holders of the 2017 Notes, the finance parties under the 2012 Credit Agreement, the finance parties under the 2011 Credit Agreement, the holders of and the trustee for the Convertible Bonds and the holders of any other Permitted Pari Passu Secured Indebtedness (or their representatives or agents).

Under the Indenture and the Intercreditor Deed, the Trustee (together with any other Secured Creditors) will appoint or have appointed the Common Security Agent as security agent with respect to the Collateral securing the obligations of the Issuer and the Subsidiary Guarantors under the Indenture, the Subsidiary Guarantees and any Permitted Pari Passu Secured Indebtedness, to exercise remedies in respect thereof upon the occurrence of an Event of Default under the Notes and the Indenture that has caused the Holders to declare the Notes to be due and payable prior to its Stated Maturity, or upon an event of default under any Permitted Pari Passu Secured Indebtedness that has caused the holders thereof to declare such Permitted Pari Passu Secured Indebtedness to be due and payable prior to its Stated Maturity, and to act as otherwise specified in the Intercreditor Deed.

The Intercreditor Deed provides and, with respect to the Notes upon the Trustee’s accession to the Intercreditor Deed, will provide, among other things (1) that the Secured Creditors shall share equal priority and *pro rata* entitlement in and to the Collateral; (2) the conditions that are applicable to the release of or granting of any Lien on such Collateral; and (3) the conditions under which they will enforce their respective rights with respect to such Collateral and the Indebtedness secured thereby.

Prior to the first Incurrence of any future Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the holders of such Permitted Pari Passu Secured Indebtedness (or their representative or agent) will accede to the Intercreditor Deed to include the holders (or their representatives or agents) of such Permitted Pari Passu Secured Indebtedness as parties to the Intercreditor Deed.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Deed, any supplements, amendments or modifications thereto, and any future intercreditor agreement that may be required under the terms of the Indenture or necessary to give effect to the provisions of the Indenture. The Intercreditor Deed is governed by and construed in accordance with Hong Kong law.

Enforcement of Security

The Liens (subject to Permitted Liens) securing the Notes and the Subsidiary Guarantees, will be granted to the Common Security Agent for itself and for the benefit of the Secured Creditors. The Common Security Agent, subject to the Intercreditor Deed, will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Secured Creditors to exercise remedies under the Security Documents. The Trustee has agreed to act as secured creditor

representative on behalf of the holders under the applicable Security Documents, to follow, or cause to be followed, the instructions provided to it under the Indenture, the Intercreditor Deed and the Security Documents and to carry out certain other duties.

The Indenture, the Intercreditor Deed and/or the Security Documents principally provide that, at any time while the Notes are outstanding, the Common Security Agent has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

The Intercreditor Deed provides that the Common Security Agent will enforce the Collateral in accordance with a written instruction by any Secured Creditor Representative to do so if it does not identify a conflict between the Secured Creditors' interests or a conflict between instructions (in the event at least two Secured Creditors issue instructions), and in the case of conflicting instructions delivered by two or more Secured Creditors Representatives, the Common Security Agent will only enforce the Collateral upon receiving written instructions from the Secured Creditors Representatives as to which instruction with which the Common Security Agent should comply (a "Notice of Conflict"), *provided* that the Common Security Agent may refuse to take any action under the Intercreditor Deed until the earlier of (i) the date on which the Common Security Agent considers that such conflict is no longer continuing, (ii) the date it receives a final order, judgment or decree rendered by any court of competent jurisdiction (which order, judgment or decree must not be capable of being subject to appeal) resolving such conflict, (iii) the date it receives an agreement signed by each Secured Creditors Representative resolving such conflict and (iv) the date it receives instructions from the Secured Creditors Representatives representing the Majority Secured Debt in response to the relevant Notice of Conflict. See "Risk Factors—Risks Relating to the Subsidiary Guarantees and the Collateral—The Intercreditor Deed may limit the rights of holders of the Notes to enforce the Collateral."

All payments received and all amounts held by the Common Security Agent in respect of the Collateral under the Security Documents will be, subject to the Intercreditor Deed, applied as follows:

first, in or towards payment of any unpaid fees, costs and expenses of the Common Security Agent and any receiver, attorney or agent appointed under the Security Documents or any security documents securing the 2012 Credit Agreement, the 2011 Credit Agreement, the Convertible Bonds, the 2017 Notes and any other Permitted Pari Passu Secured Indebtedness;

second, in or towards payment of any fees, costs and expenses of any Secured Creditor;

third, in or towards payment to the Common Security Agent for application against the Notes, the 2017 Notes and all Permitted Pari Passu Secured Indebtedness, pro rata to the amount of indebtedness owned to each Secured Creditor as at the date on which the proceeds are applied; and

fourth, the payment of the surplus (if any) to the Company, the relevant Subsidiary Guarantor or any other person entitled to it.

The Common Security Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification to its satisfaction. In addition, the Common Security Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Common Security Agent's Liens on the Collateral. The Common Security Agent is not responsible to any Secured Creditor for (i) the adequacy, accuracy or completeness of any Security Document, (ii) the legality, validity, effectiveness, adequacy, completeness or enforceability of any Security Document, (iii)(a) any failure in perfecting or protecting any security created under the Security Documents (including any failure to make any necessary registration, recording or filing of or otherwise protect such security under any law in any jurisdiction, give notice to any person of the execution

of any Security Document or obtain any authorization for the creation of such security) or (b) any other action taken or not taken by it in connection with any Security Document, unless directly caused by its gross negligence or willful misconduct or (iv) the right or title of any person in or to, or the value of, or sufficiency of any part of any security created under the Security Documents, the priority of any such security or the existence of any other security interest affecting any asset secured under any Security Document or any security document securing any Permitted Pari Passu Secured Indebtedness.

Without limiting the liability of the Company or any Subsidiary Guarantor under the Notes, the 2017 Notes, the 2012 Credit Agreement, the 2011 Credit Agreement, the Convertible Bonds or any other agreement governing Permitted Pari Passu Secured Indebtedness, each Secured Creditor must indemnify the Common Security Agent for that Secured Creditor's share of any loss or liability incurred by the Common Security Agent in acting as Common Security Agent (unless the Common Security Agent has been reimbursed by the Company or any Subsidiary Guarantor), except to the extent that the loss or liability is caused by the Common Security Agent's gross negligence or willful misconduct. A Secured Creditor's share of any loss or liability will be the proportion which the aggregate of amount of the Permitted Pari Passu Secured Indebtedness owing to it and available to be drawn from it under the Notes, the 2012 Credit Agreement, the 2011 Credit Agreement, the Convertible Bonds and any other agreement governing permitted Pari Passu Secured Indebtedness bears to all of the Permitted Pari Passu Secured Indebtedness then owing and available to be drawn.

This section, "—Enforcement of Security," shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with "—Permitted Pari Passu Secured Indebtedness" above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption "—Defeasance—Defeasance and Discharge";
- upon certain dispositions of the Collateral in compliance with the covenants under the captions "—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" or "—Limitation on Asset Sales" or in accordance with the provision under the caption "—Consolidation, Merger and Sale of Assets";
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture;
- in connection with and upon execution of a JV Subsidiary Guarantee to replace a Subsidiary Guarantee, with respect to all pledges of Capital Stock granted by such JV Subsidiary Guarantor in its direct and indirect Subsidiaries, and in accordance with the terms of the Indenture; or
- with respect to a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, the release of the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Non-Guarantor Subsidiary.

The security created in respect of the Other Collateral granted under the Security Documents may be released in respect of the Notes if it is released under all Permitted Pari Passu Secured Indebtedness.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees and JV Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock” covenant described below.

Optional Redemption

At any time and from time to time on or after November 7, 2017, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on November 7 of each of the years indicated below.

Year	Redemption Price
2017	103.5625%
2018	102.3750%
2019	101.1875%
2020 and thereafter	100.0000%

At any time prior to November 7, 2017, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption.

At any time and from time to time prior to November 7, 2015, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 107.125% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion deems to be fair and appropriate.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a “Change of Control Offer”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company’s failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company’s ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company’s and the Subsidiary Guarantors’ then—existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors—Risks Relating to the Notes—We may not be able to repurchase the Notes upon a Change of Control Triggering Event.”

The phrase “all or substantially all,” as used with respect to the assets of the Company in the definition of “Change of Control,” will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “—Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, if applicable, the PRC (each, as applicable, a “Relevant Jurisdiction”), or the jurisdiction through which payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note, and the Relevant Jurisdiction or the jurisdiction through which payments are made, other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person, any Subsidiary Guarantor or any JV Subsidiary Guarantor addressed to the Holder, to provide information concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction or the jurisdiction through which payments are made, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or

- (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction or the jurisdiction through which payments are made, unless such Note could not have been presented for payment elsewhere;
 - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction or the jurisdiction through which payments are made, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and upon reasonable notice in advance of such notice to Holders, to the Trustee and the Paying and Transfer Agent (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective (or in the case of official position, is announced) (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, in each case that is not organized or tax resident in a jurisdiction that is a Relevant Jurisdiction with respect to the relevant entity on the Original Issue Date, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any

payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, such Surviving Person, Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company or any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary (other than a Subsidiary Guarantor) may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.0 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
- (a) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee and JV Subsidiary Guarantee and indebtedness under the 2017 Notes (excluding any additional Notes) and each subsidiary guarantee and JV subsidiary guarantee;
 - (b) any Pari Passu Subsidiary Guarantees by any Subsidiary Guarantor or any JV Subsidiary Guarantor;
 - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness described in clauses (a) and (b) above and clauses (d), (f), (g) and (m) below;
 - (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d) and (ii) if the Company is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, and if a Subsidiary Guarantor or a JV Subsidiary Guarantor is the obligor on such Indebtedness and the Company is not the obligee, such Indebtedness must be expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be;
 - (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (e), (h), (o), (q), (r), (s) or (t) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of

Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, (iii) in no event may Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any JV Subsidiary Guarantor (provided that this sub-clause (iv) shall not prohibit the replacement of a Subsidiary Guarantee by a JV Subsidiary Guarantee if otherwise permitted by the Indenture);

- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; *provided* that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (q), (r), (s), (t), and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (h) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;

- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided, however*, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) Guarantees by the Company or any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, subject to the “Limitation on Issuances of Guarantees by Restricted Subsidiaries” covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding does not exceed US\$50.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (o) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$20.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (p) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement;
- (q) Indebtedness Incurred or Preferred Stock issued by the Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a PRC Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness or issuance of Preferred Stock and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness and Preferred Stock permitted by this clause (q) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clause (h) above and clauses (r), (s), (t), and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (q) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
- (r) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary, if the aggregate of all Indebtedness Incurred under this clause (r)

(together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h) and (q) above and clauses (s), (t), and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (r) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;

- (s) Bank Deposit Secured Indebtedness Incurred by the Company or any of its Restricted Subsidiaries, provided that on the date of Incurrence of such Indebtedness, the aggregate principal amount outstanding of such Indebtedness permitted by this clause (s) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q) and (r) above and clauses (t) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (s) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
 - (t) Indebtedness Incurred by any Restricted Subsidiary incorporated under the laws of the PRC which is secured by Investment Properties, and Guarantees thereof by the Company or any such Restricted Subsidiary; provided that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (t) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q), (r) and (s) above and clause (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (t) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
 - (u) Indebtedness Incurred by the Company constituting a Subordinated Shareholder Loan; and
 - (v) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Minority Interest Staged Acquisition Agreement; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (v) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q), (r), (s) and (t) above and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (v) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (1), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.

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

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable or paid in shares of the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment;

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

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock”; or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date, shall exceed the sum of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on October 1, 2012 and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus

- (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus
- (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Original Issue Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
- (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Original Issue Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (C) to the extent that an Investment made after the Original Issue Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person; plus
- (v) US\$50.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital

- Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);
 - (5) any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;
 - (6) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing), provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US\$25 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
 - (7) the purchase of Capital Stock of a Person pursuant to a Staged Acquisition Agreement or a Minority Staged Acquisition Agreement;
 - (8) dividends paid to, or the purchase of Capital Stock of any PRC Restricted Subsidiary held by any Trust Company Investor in respect of any Indebtedness outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(q) of the “Limitation on Indebtedness and Preferred Stock” covenant;
 - (9) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, provided, however, that any such cash payment shall not be for the purpose of evading the limitation of this “—Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
 - (10) the declaration and payment of dividends on the Common Stock of the Company by the Company in an aggregate amount not to exceed 30% of the Consolidated Net Income of the Company for the fiscal year ended December 31, 2012; or

- (11) the repurchase of Common Stock of the Company on The Stock Exchange of Hong Kong Limited in an aggregate amount of up to US\$300 million during the period beginning on the Original Issue Date and ending on December 31, 2014 pursuant to the general mandate granted by the shareholders of the Company to the Board of Directors at the annual general meeting of the Company held on May 18, 2012;

provided that, in the case of clause (2), (3), (4), (10) or (11) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment made pursuant to clause (1) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “—Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

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

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) through (11) above), the Company will deliver to the Trustee an Officers’ Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this “—Limitation on Restricted Payments” covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, the 2017 Notes and the subsidiary guarantees and JV subsidiary guarantees thereof, the indenture for the 2017 Notes, the 2017 Notes Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor or any JV Subsidiary Guarantor, and any extensions,

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

- (b) existing under or by reason of applicable law, rule, regulation or order;
- (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “—Limitation on Indebtedness and Preferred Stock” and “—Limitation on Asset Sales” covenants;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or issuance of Preferred Stock permitted under paragraph (1) or of the type described under clause (2)(h), (2)(n), (2)(o), (2)(p), (2)(q), (2)(r), (2)(s), (2)(t) or 2(v) of the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (g) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or

restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee; or

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

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

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

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) for the issuance or sale of the Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "—Limitation on Restricted Payments" covenant if made on the date of such issuance or sale and provided that the Company complies with the "—Limitation on Asset Sales" covenant; or
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "—Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any Subsidiary Guarantor, unless (1)(a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture, pursuant to which it becomes a party to the Indenture and an accession deed to the Intercreditor Deed providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the

Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (2) (d) and (s) (in the case of clause (2)(s), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of one or more bank accounts to secure any Bank Deposit Secured Indebtedness), under the caption “—Limitation on Indebtedness and Preferred Stock.”

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

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

- (1) the payment of reasonable and customary regular fees and other compensation for the service as board members to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption “—Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (6) of the second paragraph of the “Limitation on Restricted Payments” covenant; and
- (7) loans or advances to employees, officers or directors in the ordinary course of business not to exceed US\$2.5 million in the aggregate at any one time outstanding.

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

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

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

- (1) the Company or any Restricted Subsidiary could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under “—Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “—Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under the caption “—Limitation on Asset Sales.”

Limitation on Asset Sales

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

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$50.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
 - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

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

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary;
- (2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or Replacement Assets; or
- (3) make an Investment in cash or Temporary Cash Investments pending application of such Net Cash Proceeds as set forth in clause (1) or (2) above.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute “Excess Proceeds.” Excess Proceeds of less than US\$20.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$20.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

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

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated,

under the caption “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

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

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “—Limitation on Indebtedness and Preferred Stock”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “—Limitation on Liens”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which it becomes a party to the Indenture and an accession deed to the Intercreditor Deed by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor.

Government Approvals and Licenses; Compliance with Law

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

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both of the Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from at least two Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (2) “—Certain Covenants—Limitation on Restricted Payments”;
- (3) “—Certain Covenants—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “—Certain Covenants—Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “—Certain Covenants—Limitation on the Company’s Business Activities”;
- (7) “—Certain Covenants—Limitation on Sale and Leaseback Transactions”; and
- (8) “—Certain Covenants—Limitation on Asset Sales.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “—Certain Covenants—Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's ordinary shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee
 - (a) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarters and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation, *provided* that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and
 - (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under “—Consolidation, Merger and Sale of Assets,” the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions “—Repurchase of Notes upon a Change of Control Triggering Event” or “—Limitation on Asset Sales,” or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption “—Security”;
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes or under the Intercreditor Deed (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary (other than a Subordinated Shareholder Loan) having an outstanding principal amount of US\$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$10.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company’s insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for any substantial part of the property and assets of the Company or any Significant Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any Significant Subsidiary (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for all or substantially all of the property and assets of the Company or any Significant Subsidiary or (c) effects any general assignment for the benefit of creditors;
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;

- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents or the Intercreditor Deed, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or Intercreditor Deed or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a security interest in the Collateral (subject to any Permitted Liens).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of the Holders of Notes waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, foreclose on the Collateral in accordance with the terms of the Security Documents and the Intercreditor Deed and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See “—Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In

addition, the Trustee will not be required to expend its own funds in following such direction if it does not reasonably believe that reimbursement and/or satisfactory indemnification is assured to it.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture unless security and/or indemnity satisfactory to the Trustee against any loss, liability or expense shall have been offered to the Trustee. A Holder of Notes may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the written request and the offer of indemnity and/or security; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "—Provision of Financial Statements and Reports."

Consolidation, Merger and Sale of Assets

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

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;

- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “—Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries’ properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor); and shall expressly assume, by a supplemental indenture to the Indenture and an accession deed to the Intercreditor Deed, executed and delivered to the Trustee and the Common Security Agent, all the obligations of such Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4) of this paragraph) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this covenant and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “—Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “—The Subsidiary Guarantees—Release of the Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee (or its agent), in trust, money and/or U.S. Government Obligations or any combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity for such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;
- (2) the Company has delivered to the Trustee an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Subsidiary Guarantees and JV Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph, and clauses (3), (4), (5)(x) and (6) under the second paragraph under “—Consolidation, Merger and Sale of Assets” and all the covenants described herein under “—Certain Covenants,” other than as described under “—Certain Covenants—Government Approvals and Licenses; Compliance with Law” and “—Certain Covenants—Anti-Layering,” clause (3) under “Events of Default” with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph, and clauses (3), (4), (5)(x) and (6) under the second paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “Events of Default” with respect to such other covenants and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and

principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, and the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture, the Intercreditor Deed or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Deed or any Security Document;
- (2) comply with the provisions described under “—Consolidation, Merger and Sale of Assets”;
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor and the corresponding Collateral as provided or permitted by the terms of the Indenture;
- (7) add additional collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (8) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (9) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream or any applicable securities depositary;
- (10) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee to supplement or amend the Intercreditor Deed, the Security Documents or the Indenture and

take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);

- (11) make any other change that does not materially and adversely affect the rights of any Holder; or
- (12) conform the text of the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees to any provision of this “Description of the 2022 Notes” to the extent that such provision in this “Description of the 2022 Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees.

Amendments With Consent of Holders

The Indenture, the Intercreditor Deed or any Security Document may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in aggregate principal amount of the outstanding Notes waive future compliance by the Company with any provision thereof; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Intercreditor Deed, the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of the Intercreditor Deed, any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be

made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;

- (13) change the redemption date or the redemption price of the Notes from that stated under the captions “—Optional Redemption” or “—Redemption for Taxation Reasons”;
- (14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees, or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Agents

The Bank of New York Mellon, London Branch has been appointed as Trustee under the Indenture and, and Industrial and Commercial Bank of China (Macau) Limited has been appointed as Common Security Agent with respect to the Collateral under the Intercreditor Deed and other Security Documents. The Bank of New York Mellon (Luxembourg) S.A. has been appointed as the note registrar (the “Note Registrar”) and The Bank of New York Mellon, London Branch has been appointed as the paying and transfer agent (the “Paying Agent” and together with the Trustee and Note Registrar, the “Agents”) with regard to the Notes. Except during the continuance of a Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenant or obligation shall be read into the Indenture against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Company and its Affiliates; *provided, however*; that if it acquires any conflicting interest, it must eliminate such conflict or resign.

None of the Trustee, the Paying Agent, the Note Registrar, or the Common Security Agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for (i) the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Intercreditor Deed or other Security Documents, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or (ii) for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so except as a result of the Common Security Agent's own fraud, gross negligence or willful misconduct.

The Bank of New York Mellon, London Branch will initially act as Trustee and Industrial and Commercial Bank of China (Macau) Limited will initially act as the Common Security Agent under the Security Documents in respect of the Lien over the Collateral. The Common Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee and the Common Security Agent may have obligations under the Intercreditor Deed or other Security Documents that are in conflict with the interests of the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the Common Security Agent will be under any obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the Common Security Agent indemnity and/or security satisfactory to the Trustee and/or the Common Security Agent against any loss, liability or expense.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, the Company will maintain at least one paying agent in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

Industrial and Commercial Bank of China (Macau) Limited will initially act as the Common Security Agent under the Security Documents in respect of the security over the Collateral. The Common Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture, the Intercreditor Deed and the Security Documents. Under certain circumstances, the Common Security Agent may have obligations under the Security Documents, the Indenture or the Intercreditor Deed that are in conflict with the interests of the Trustee, the Holders, the creditors and facility agent under the 2012 Credit Agreement, the creditors and facility agent under the 2011 Credit Agreement, the holders of and the trustee for the Convertible Bonds and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the Common Security Agent will be under any obligation to exercise any rights or powers conferred under the Indenture, the Intercreditor Deed or any other Security Document for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the Common Security Agent indemnity and/or security satisfactory to it against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee, the other Agents and the Common Security Agent, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee, the other Agents or the Common Security Agent in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “Initial Global Note”). On the Original Issue Date, the Initial Global Note will be deposited with a common depositary and registered in the name of the common depositary or its nominee for the accounts of Euroclear and Clearstream. Any additional Notes will be represented by additional global notes in registered form without interest coupons attached (the “Additional Global Notes” and, together with the Initial Global Note, the “Global Notes”).

Global Notes

Ownership of beneficial interests in the Global Notes (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “—Certificated Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Notes for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Notes

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and Additional Amounts) will be made to the Paying Agent. The Paying Agent will, in turn, make such payments to the common depositary for Euroclear and/or Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “—Additional Amounts.”

Under the terms of the Indenture, the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Notes (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee, the Agents or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear,

Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or

- any action or failure to take action by Euroclear, Clearstream or any participant or indirect participant in connection with distributing the payments made by the Company, the Subsidiary Guarantors or the JV Subsidiary Guarantors on the Global Notes.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the common depository will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depository, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided*, however, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in a Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of any Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Notes for certificated notes in certificated form, and to distribute such certificated notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of certificated notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Notes will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will

thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the applicable settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee, the Agents or any of their respective agents will have responsibility for the performance by Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Certificated Notes

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “—Events of Default” and the Company has received a written request from a Holder, the Company will issue certificated notes in registered form in exchange for the Global Notes. Upon receipt of such notice from the common depository, Euroclear, Clearstream or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Notes for certificated notes and cause the requested certificated notes to be

executed and delivered to the registrar in sufficient quantities and authenticated by the Trustee or an authenticating agent for delivery to Holders. Persons exchanging interests in a Global Note for certificated notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by the Company and the registrar to complete, execute and deliver such certificated notes. In all cases, certificated notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Certificated notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the mails of the relevant jurisdiction (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor, the Note Registrar, the Paying Agent or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, the Indenture or any transaction contemplated thereby; and (2) designate and appoint National Corporate Research, Ltd. located at 10E. 40th Street, 10th Floor, New York, New York 10016 for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York. The Subsidiary Guarantees and any JV Subsidiary Guarantees will be governed by the laws of Hong Kong. The Intercreditor Deed is governed by the laws of Hong Kong. The relevant pledge documents pursuant to “—Security” will be governed under the laws of the jurisdiction in which the relevant Subsidiary Guarantor is incorporated.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the 2022 Notes” for which no definition is provided.

“2011 Credit Agreement” means the credit agreement dated June 22, 2011 among the Company, Standard Chartered Bank (Hong Kong) Limited as facility agent, Industrial and Commercial Bank of China (Macau) Limited as security agent and the financial institutions party thereto, as amended prior to the Original Issue Date.

“2012 Credit Agreement” means the credit agreement dated June 5, 2012 among the Company, Standard Chartered Bank (Hong Kong) Limited as facility agent and the financial institutions party thereto, as amended prior to the Original Issue Date.

“2017 Notes” means any and all outstanding notes of the US\$600,000,000 5.750% Senior Notes due 2017 of the Company.

“2017 Notes Security Documents” means “Security Documents” as defined under the indenture governing the 2017 Notes.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (i) the redemption price of such Note on November 7, 2017 (such redemption price being set forth in the table appearing above under the caption “—Optional Redemption”), plus (ii) all required remaining scheduled interest payments due on such Note through November 7, 2017 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale or issuance of Capital Stock of a Restricted Subsidiary or sale of Capital Stock of any other Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “—Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “—Consolidation, Merger and Sale of Assets”;
- (7) sales or other dispositions of cash or Temporary Cash Investments; and
- (8) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts of the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange U.S. dollars or Hong Kong dollars into Renminbi or vice versa.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person or the merger, amalgamation or consolidation of another Person with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;
- (2) the Permitted Holders are the beneficial owners of less than 30% of the total voting power of the Voting Stock of the Company;
- (3) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the U.S. Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the U.S. Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose nomination to the board of directors was approved by a vote of at least a majority of the directors then still in office who were either directors on the Original Issue Date or whose nomination was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least one Rating Agency, a Rating Decline.

“Clearstream” means Clearstream Banking, *société anonyme*, Luxembourg.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors and the other collateral securing the 2011 Credit Agreement and/or the 2012 Credit Agreement and/or the Convertible Bonds.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

“Common Security Agent” means Industrial and Commercial Bank of China (Macau) Limited as common security agent under the Intercreditor Deed.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to November 7, 2017 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to November 7, 2017.

“Comparable Treasury Price” means, with respect to any redemption date:

- (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities”; or
- (2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

“Consolidated Assets” means, with respect to any Restricted Subsidiary at any date of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of that Restricted Subsidiary and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements).

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets not included in the calculation of Consolidated EBITDA), and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP),

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees) and (7) any capitalized interest, *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
 - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;

- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after tax extraordinary or non-recurring gains;

provided that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income; (B) for purposes of this Consolidated Net Income calculation (but not for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio) any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the original cost basis and the cash sale price shall be added to Consolidated Net Income to the extent not already included in the net income for such period as determined in conformity with GAAP and Consolidated Net Income and (C) solely for the purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains on Investment Properties arising from fair value adjustments made in conformity with GAAP shall be added to Consolidated Net Income.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available fiscal quarter, semi-annual or annual consolidated balance sheet (which may be an internal consolidated balance sheet) of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Convertible Bonds” means the Company’s HK\$2,800,000,000 3.75% convertible bonds due 2014.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “—Limitation on Asset Sales” and “—Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “—Limitation on Asset Sales” and “—Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“EIT Law” means the Enterprise Income Tax Law promulgated and adopted on March 16, 2007 by the National People’s Congress of the PRC, which came into effect on January 1, 2008.

“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, *provided* that, such borrowings are not reflected on the consolidated balance sheet of the Company.

“Equity Offering” means (i) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; *provided* that any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) results in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of the Fair Market Value of total assets

for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of recognized international standing appointed by the Company.

“Fitch” means Fitch Ratings, Inc. and its affiliates or successors.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Four Fiscal Quarter”) to (2) the aggregate Consolidated Fixed Charges during such Four Fiscal Quarter Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Fiscal Quarter and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Fiscal Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay such Indebtedness;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be

based upon the four full fiscal quarter periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“Giant Profit” means Giant Profit (Hong Kong) Limited, a company incorporated under the laws of Hong Kong.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;

- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligation, pre-sale receipts in advance from customers or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business, or Entrusted Loans; *provided* that such item is not reflected on the consolidated balance sheet of the Company as borrowings or indebtedness (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings or indebtedness on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (2)(f) under the “Limitation on Indebtedness and Preferred Stock” covenant, and (ii) equal to the net amount payable by such Person if such Hedging Obligation terminated at that time if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Initial Other Non-Guarantor Subsidiaries” means Star Well Industrial Limited (星潤實業有限公司), Fancy Express Investment Limited (宜通投資有限公司), Top Keen Investment Limited (高銳投資有限公司), Sure Fancy Investment Limited (保怡投資有限公司) and T&T International Investment Corporation (鼎鼎國際投資股份有限公司).

“Intercreditor Deed” has the meaning set forth under “—Security.”

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

An acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of Common Stock of the Company will not be deemed an Investment.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “—” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s, or any of its successors or assigns, or a rating of “AAA,” “AA,” “A,” “BBB,” as modified by a “+” or “—” indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody’s or Fitch or two or three of them, as the case may be.

“Investment Property” means any property that is owned and held by any Restricted Subsidiary incorporated under the laws of the PRC primarily for rental yields or for capital appreciation or both, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

“Jointly Controlled Entity” means any corporation, association or other business entity of which 20% or more of the voting power of the outstanding Capital Stock is owned, directly or indirectly by the Company or a Restricted Subsidiary and such corporation, association or other business entity is treated as a “jointly controlled entity” in accordance with GAAP and is primarily engaged in a Permitted Business, and such Jointly Controlled Entity’s Subsidiaries.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor and its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “—The Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Majority Secured Debt” means, in respect of a decision under the caption “—Security—Enforcement of Security,” the decision of the Secured Creditors Representatives representing their Secured Creditors whose total outstanding principal under their secured debts which, when aggregated, exceed 50% of the total outstanding principal amount of all Secured Creditors’ secured debts.

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and

liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying and Transfer Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

On one Business Day prior to the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and upon receipt of a written order of the Company signed by an Officer, the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased

portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“Officers’ Certificate” means a certificate signed by two Officers; *provided*, however, with respect to the Officers’ Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers’ Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

“Opinion of Counsel” means a written opinion from external legal counsel selected by the Company, *provided* that such counsel shall be reasonably acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Pari Passu Subsidiary Guarantee” means a guarantee by any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); *provided* that (1) the Company was permitted to Incur such Indebtedness under the covenant under the caption “—Limitation on Indebtedness and Preferred Stock” and (2) such guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption “—Repurchase of Notes upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under the caption “—Limitation on Asset Sales” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“Permitted Businesses” means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company and its Restricted Subsidiaries on the Original Issue Date.

“Permitted Holders” means any or all of the following:

- (1) Pan Shiyi or Zhang Xin;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Persons specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary, directly or indirectly through one or more other Restricted Subsidiaries, that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged, directly or indirectly through one or more other Restricted Subsidiaries, in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged, directly or indirectly through one or more other Restricted Subsidiaries, in a Permitted Business;
- (2) any Investment in cash or Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant under the caption “—Limitation on Asset Sales.”
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “—Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;

- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;
- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of business;
- (16) advances to government authorities or government-affiliated entities in the PRC in connection with the financing of primary land development in the ordinary course of business that are recorded as assets in the Company's balance sheet;
- (17) Guarantees permitted under clause 2(r) of the covenant under "—Limitation on Indebtedness and Preferred Stock";
- (18) any Investment (including any deemed Investment upon the sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person (other than a Restricted Subsidiary and other than in connection with the designation of a Restricted Subsidiary as an Unrestricted Subsidiary); *provided* that:
 - (i) the Person into which such Investment is made is primarily engaged in the Permitted Businesses;
 - (ii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (18) is a Person described in clauses (x) or (y) of the first paragraph of the covenant under the caption "—Limitation on Transactions with Shareholders and Affiliates" (other than by reason of such shareholder or partner being an officer or director of the Company or a Restricted Subsidiary or by reason of being a Restricted Subsidiary);
 - (iii) no Default has occurred and is continuing or would occur as a result of such Investment;
 - (iv) the Company or any Restricted Subsidiary own, directly or indirectly, no less than 20% of the voting power of the outstanding Voting Stock of the Person into which such Investment is made is (after giving effect to such Investment); and
 - (v) in the case of any Investment by the Company or any Restricted Subsidiary in a Person of which less than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by the Company or its Restricted Subsidiaries, at the time of such Investment, the

Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “—Limitation of Indebtedness and Preferred Stock.”

For the avoidance of doubt, the value of each Investment made pursuant to this clause shall be valued at the time such Investment is made; and

(19) repurchase of the Notes.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations of the type described by clause (f) of

the second paragraph of the covenant under the caption “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;

- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “—Certain Covenants —Limitation on Indebtedness and Preferred Stock”; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing the 2017 Notes, the subsidiary guarantees for the 2017 Notes, any other obligations under the indenture governing the 2017 Notes, and any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “—Security—Permitted Pari Passu Secured Indebtedness”;
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (18) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;
- (19) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

- (20) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (21) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (22) Liens on the Capital Stock of a PRC Restricted Subsidiary granted by the Company or any PRC Restricted Subsidiary in favor of any Trust Company Investor in respect of, and to secure, the Indebtedness of the type described under paragraph (q) of the second paragraph of the “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant;
- (23) Liens Incurred on deposits made to secure Bank Deposit Secured Indebtedness of the type described under paragraph (s) of the second paragraph of the “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant;
- (24) Liens Incurred on deposits made to secure Entrusted Loans;
- (25) Liens securing Indebtedness of the type described under clause (2)(n) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (26) Liens securing Indebtedness Incurred under clause 2(r) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (27) Liens on Investment Properties securing Indebtedness of the Company or Restricted Subsidiary incorporated under the laws of the PRC of the type described under clause (2)(t) of the covenant described under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (28) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(p) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”; and
- (29) Liens on the Capital Stock of the Person that is to be acquired under the relevant Minority Interest Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(v) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”; and
- (30) Liens securing Indebtedness permitted to be Incurred by any PRC Restricted Subsidiary under clause (2)(o) of the covenant described under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;

provided that, with respect to the Collateral, “Permitted Liens” shall only refer to the Liens described in clauses (1), (6), (13) and (14) of this definition.

“Permitted Pari Passu Secured Indebtedness” has the meaning set forth under “—Security—Permitted Pari Passu Secured Indebtedness.”

“Permitted Subsidiary Indebtedness” means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole (excluding any Indebtedness of the Subsidiary Guarantors); *provided*

that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding Public Indebtedness and any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (b), (d), (f), (g), (m) and (p) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 15% of the Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“PRC” means the People’s Republic of China, excluding, solely for the purpose of this definition, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Public Indebtedness” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“Rating Agencies” means (1) S&P, (2) Moody’s and (3) Fitch; *provided* that if S&P, Moody’s, Fitch, two of any of the three or all three of them shall not make a rating of the Notes publicly available, one or more nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody’s, Fitch, two of any of the three or all three of them, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (4) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s and “+” and “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption “—Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under the caption “—Consolidation, Merger and Sale of Assets,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by all three of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any two of the three Rating Agencies shall be below Investment Grade;
- (b) in the event the Notes are rated by any two, but not all three, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any of such two Rating Agencies shall be below Investment Grade;
- (c) in the event the Notes are rated by one, and only one, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (d) in the event the Notes are (i) rated by less than three Rating Agencies or (ii) rated below Investment Grade by all three of the Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

“Replacement Assets” means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and is or will become, upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, a Restricted Subsidiary.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services and its successors.

“Significant Subsidiary” means the Restricted Subsidiary that would be “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of this Indenture, if any of the conditions exceeds 5 percent.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Secured Creditors” means, collectively, (i) the finance parties under the 2011 Credit Agreement; (ii) the finance parties under the 2012 Credit Agreement; (iii) the Trustee (for itself and for the benefit of the holders of the Notes); (iv) the trustee for the Convertible Bonds (for itself and for the benefit of the holders of the Convertible Bonds); and (v) (x) the holder of any other Permitted Pari Passu Secured Indebtedness (if there is only one creditor with respect to any series of Permitted Pari Passu Secured Indebtedness) or (y) the representative or agent of the holders of any Permitted Pari Passu Secured Indebtedness (if there is more than one such creditor), in each case that has become a party to the Intercreditor Deed on behalf of itself, or as the case may be, holder(s) of Permitted Pari Passu Secured Indebtedness.

“Secured Creditors Representatives” means, collectively, the Trustee, Standard Chartered Bank (Hong Kong) Limited as facility agent under the 2011 Credit Agreement, Standard Chartered Bank (Hong Kong) Limited as facility agent under the 2012 Credit Agreement and the holders (or their representatives or agents) of any Permitted Pari Passu Secured Indebtedness, in each case that are parties to the Intercreditor Deed or other similar agreements pursuant to the terms of the Indenture, if any.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Security Documents” means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Common Security Agent, the Trustee and/or any Holder in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subordinated Shareholder Loan” means any loan to the Company or any Restricted Subsidiary from Permitted Holders which (i) is subordinated in right of payment to the Notes, (ii) by its terms (and by the terms of any security into which it is convertible or for which it is exchangeable) does not mature and is not required to be repaid, pursuant to a sinking fund obligation event of default or otherwise, in whole or in part, on or prior to the date that is one year after the Stated Maturity of the Notes and (iii) does not provide any cash payment of interest.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of “Designation of Restricted and Unrestricted Subsidiaries” covenant.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, in each case maturing within one year, which in the case of obligations of, or obligations Guaranteed by, any state of the European Economic Area, shall be rated at least “A” by S&P or Moody’s;
- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided

profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits or structured deposit products with a term not exceeding six months that are principal protected with any banks or financial institutions organized under the laws of the PRC.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(h) of “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Trust Company Investor” means an Independent Third Party that is a financial institution or an insurance company organized under the laws of the PRC, or an Affiliate thereof, that Invests in any Capital Stock of a PRC Restricted Subsidiary.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Cayman Islands, Hong Kong, PRC, Macau and Barbados tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

CAYMAN ISLANDS

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest and principal on the Notes will not be subject to taxation and no withholding will be required on the payment of interest and principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands are not party to any double taxation treaties.

No stamp duty is payable in respect of the issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

The Company has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has obtained an undertaking from the Governor in Cabinet of the Cayman Islands as to tax concessions under the Tax Concessions Law (1999 Revision). In accordance with the provision of section 6 of The Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with the Company:

- That no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations.
- In addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable, on or in respect of the shares, debentures or other obligations of the Company, or by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).
- These concessions shall be for a period of 20 years from March 19, 2002.

HONG KONG

Withholding Tax. No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax. Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty. No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

PRC

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Taxation on Interest and Capital Gains. Under the PRC EIT Law issued by National People’s Congress and implementation regulations issued by the State Council, PRC income tax at the rate of 10% (or lower treaty rate, if any) is withheld from interest paid to investors that are “non-resident enterprises” and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant interest income is not effectively connected with the establishment or place of business, to the extent such interest is derived from sources within the PRC. Any gain realized on the transfer of the Notes by such investors is subject to a 10% (or lower treaty rate, if any) PRC income tax if such gain is regarded as income of a “non-resident enterprise” derived from sources within the PRC. We currently do not intend to withhold PRC taxes from interest payments. However, there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If we are treated as a PRC “resident enterprise,” as described in “Risk Factors—Risks Relating to Our Business—We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income” the interest we pay in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, may be treated as income derived from sources within the PRC and may be subject to PRC tax (including withholding tax in the case of interest).

Stamp duty. No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note.

MACAU

Withholding Tax. No withholding tax in Macau is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Complementary Tax on Individuals. Macau Complementary Tax is charged on every person, independently of its place of residence, carrying on a trade or business in Macau, in respect of all earnings arising in or derived from the commercial or industrial activity carried by such person in Macau. Under the Macau Complementary Income Tax Regulation (Law 21/78/M of Macau), as it is currently applied, Macau Complementary Tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade or business carried on in Macau.

Interest on the Notes will be subject to Macau Complementary Tax where such interest has a Macau source, and is received by or accrues to a person carrying on a trade or business in Macau and such interest is in respect of the funds of the trade or business.

Although no autonomous tax is imposed in Macau in respect of capital gains, Macau Complementary Tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade or business carried on in Macau.

Complementary Tax on Corporations. Macau Complementary Tax is charged on every company, independently of its place of incorporation or location of head office, carrying on a business in Macau, in respect of worldwide income (Macau incorporated companies) or Macau source-income (non-incorporated companies). Under the Macau Complementary Income Tax Regulation (Law 21/78/M of Macau), as it is currently applied, Macau Complementary Tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is performed by a Macau incorporated company or forms part of a trade or business carried on in Macau by a non-incorporated company.

Interest on the Notes will be subject to Macau Complementary Tax if perceived by a Macau incorporated company and where such interest has a Macau source, and is received by or accrues to a non-incorporated company carrying on a trade or business in Macau and such interest is in respect of the funds of the trade or business.

Although no autonomous tax is imposed in Macau in respect of capital gains, Macau Complementary Tax may be chargeable on trading gains arising on the sale or disposal of the Notes if perceived by a Macau incorporated company and where such transactions are or form part of a trade or business carried on in Macau.

Stamp Duty. No Macau stamp duty will be chargeable upon the issue or transfer of a Note.

BARBADOS

Under the laws of Barbados, there is no withholding or other tax to be deducted from the payment of interest or other income paid or deemed to be paid by the Barbados Subsidiary Guarantor to any non-resident holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Barbados income or corporation tax.

Except for the stamp duty in the amount adjudicated in accordance with the Stamp Duty Act payable in respect of the Notes, to ensure their enforceability and admissibility in evidence, no further stamp duty, registration fees or documentary taxes or similar taxes, duties or charges are payable in Barbados in respect of the execution and delivery of the Notes.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated October 31, 2012 (the “Purchase Agreement”), with The Hongkong and Shanghai Banking Corporation Limited, Morgan Stanley & Co. International plc, Standard Chartered Bank, Barclays Bank PLC and Goldman Sachs (Asia) L.L.C. (together the “Initial Purchasers”), have agreed to purchase from us, and we have agreed to sell to the Initial Purchasers, the following aggregate principal amount of the Notes.

Name	Principal Amount of 2017 Notes	Principal Amount of 2022 Notes
The Hongkong and Shanghai Banking Corporation Limited	US\$176,470,588	US\$117,647,059
Morgan Stanley & Co. International plc	US\$235,294,118	US\$156,862,745
Standard Chartered Bank	US\$117,647,059	US\$ 78,431,373
Barclays Bank PLC.	US\$ 11,764,706	US\$ 7,843,137
Goldman Sachs (Asia) L.L.C.	US\$ 58,823,529	US\$ 39,215,686
TOTAL	US\$600,000,000	US\$400,000,000

The Purchase Agreement provides that the obligation of the Initial Purchasers to pay for and accept delivery of the Notes is several and is subject to the approval of certain legal matters by their counsel and certain other conditions. The Initial Purchasers are committed to take and pay for all of the Notes if any are taken. After the initial offering, the offering price and other selling terms may be varied from time to time by the Initial Purchasers.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchasers may be required to make in respect thereof.

The Notes are a new issue of securities with no established trading market. Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST Exchange. We have been advised by the Initial Purchasers that, in connection with the offering of the Notes, Standard Chartered Bank, as stabilization agent may, on behalf of the Initial Purchasers, engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Initial Purchasers may over-allot the offering, creating a syndicate short position. In addition, the Initial Purchasers may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. Any of these activities may stabilize or maintain the market price of the Notes above independent market levels. The Initial Purchasers are not required to engage in these activities, and may end any of these activities at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes. These transactions may be effected in the over-the-counter market or otherwise.

We have agreed not to, for a period of 60 days after the date of this offering memorandum, without the prior written consent of the Initial Purchasers, offer, sell, contract to sell or otherwise dispose of, any debt securities issued or guaranteed by the Company or any of the Subsidiary Guarantors that are substantially similar to the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any).

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be on or about the fifth business day following the pricing date of the Notes (this settlement cycle being referred to as “T+5”). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or succeeding business days should consult their own legal advisor.

Selling Restrictions

United States

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefits of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions.”

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in compliance with an available exemption from registration under the Securities Act.

United Kingdom

Each of the Initial Purchasers has severally represented and agreed that (A) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (B) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor.

Singapore

The Initial Purchasers have acknowledged that this offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”). Accordingly, each of the Initial Purchasers severally represented that this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased in reliance of an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

- (a) an institutional investor (as defined in Section 4A of the SFA);
- (b) a relevant person (as defined in Section 275(2) of the SFA); or
- (c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore “SFR”.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA;
- (2) (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA, or (in the case of such trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;
- (3) where no consideration is or will be given for the transfer;
- (4) where the transfer is by operation of law;
- (5) as specified in Section 276(7) of the SFA; or
- (6) as specified in Regulation 32 of the SFR.

Hong Kong

Each of the Initial Purchasers has severally represented and agreed that (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) and any rules made thereunder; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (2) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the

contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made thereunder.

PRC

The Initial Purchasers have acknowledged that this offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Each of the Initial Purchasers has severally represented and agreed that, except to the extent consistent with applicable laws and regulations in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements in the PRC, with the exception to the extent consistent with applicable laws and regulations in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

Japan

Each of the Initial Purchasers has severally represented, warranted and undertaken that the Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the “Financial Instruments and Exchange Law”) and that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other applicable laws and regulations of Japan.

Italy

Each of the Initial Purchasers has severally represented and agreed that: (i) it shall not make any solicitation in connection with any offering of Notes in Italy; (ii) no copies of this offering memorandum or any other documents relating to the Notes will be distributed in Italy; and (iii) no Notes may be offered, sold or delivered in Italy.

Cayman Islands

Each of the Initial Purchasers has severally represented and agreed that no invitation has been made, or will be made, to the public in the Cayman Islands to subscribe for any Notes.

General

No action is being taken or is contemplated by us that would permit a public offering of the Notes or possession or distribution of any preliminary offering memorandum or offering memorandum or any amendment thereof, any supplement thereto or any other offering material relating to the Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

We have been advised that the Initial Purchasers presently intend to make a market in the Notes, as permitted by applicable laws and regulations. The Initial Purchasers are not obligated, however, to make a

market in the Notes, and any such market making may be discontinued at any time without prior notice at the sole discretion of the Initial Purchasers. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes.

The Initial Purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory, commercial banking and investment banking services, for us and our affiliates in the ordinary course of business. We may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

In connection with this offering of the Notes, each Initial Purchaser and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the Notes. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchasers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

TRANSFER RESTRICTIONS

Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, resale, pledge or other transfer of Notes.

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)), you will be deemed to have made the following acknowledgements, representations to, and agreements with, us and the Initial Purchasers:

1. You understand and acknowledge that:
 - the Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)) have not been registered under the Securities Act or any other applicable securities laws;
 - the Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)) are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;
 - the Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)) are being offered and sold only outside of the United States, to certain persons, other than U.S. persons, in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and
 - unless so registered, the Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)) may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph 4 below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)) in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers have made any representation to you with respect to us or the offering of the Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)), other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase the Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)) including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)) for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)) in violation of the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing the Notes, and each subsequent holder of the Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)) by

its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes (including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any)) may be offered, sold or otherwise transferred only:

- (a) to us;
- (b) under a registration statement that has been declared effective under the Securities Act;
- (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act; or
- (d) under any other available exemption from the registration requirements of the Securities Act,

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or account's control and in compliance with applicable state and other securities laws.

5. You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the date that is 40 days after the later of the closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes (the "Resale Restriction Period"), and will not apply after the applicable Resale Restriction Period ends;
- we and the trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clause (d) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee; and
- each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH SOHO CHINA LIMITED (THE "COMPANY") OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO

REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR THE ACCOUNT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

6. You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Notes (including the Subsidiary Guarantees) as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

RATINGS

The Notes are expected to be rated BB+ by Standard & Poor's Ratings Services and Ba1 by Moody's Investors Service. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned a long-term corporate credit rating of BB+ with a negative outlook by Standard and Poor's Rating Services and a corporate family rating of Ba1 with a stable outlook by Moody's Investors Service. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Sidley Austin as to matters of United States federal and New York law, English law and Hong Kong law, Zhong Lun Law Firm as to matters of PRC law, Walkers as to matters of Cayman Islands law and British Virgin Islands law, Lex Caribbean as to matters of Barbados law and MdME as to matters of Macau law.

Certain legal matters will be passed upon for the Initial Purchasers by Davis Polk & Wardwell as to matters of United States federal and New York law and Commerce & Finance Law Offices as to matters of PRC law.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements as of and for the three years ended December 31, 2009, 2010 and 2011 reproduced or incorporated by reference in this offering memorandum have been audited by KPMG, certified public accountants. The consolidated financial statements as of and for the six months ended June 30, 2011 and 2012 reproduced or incorporated by reference in this offering memorandum have been reviewed by KPMG, certified public accountants. This information is not audited and accordingly the degree of reliance on such information should be restricted in light of the limited nature of the review procedure applied. The published consolidated financial statements as of and for the year ended December 31, 2009 and the published consolidated financial statements as of and for the six months ended June 30, 2011 are incorporated by reference in this offering memorandum. The condensed consolidated financial information as of and for the six months ended June 30, 2011 is included for comparison purposes in the condensed consolidated financial statements as of and for the six months ended June 30, 2012 as stated in our interim report for the six months ended June 30, 2012.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the British Virgin Islands, Hong Kong and Macau in connection with the issue and performance of the Notes and the Subsidiary Guarantees and in Barbados in connection with the Subsidiary Guarantees. The entering into of the Indenture and the issue of the Notes have been authorized by a resolution of our board of directors dated October 25, 2012.

Litigation

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes or the Subsidiary Guarantees.

No Material Adverse Change

There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since June 30, 2012 that is material in the context of the issue of the Notes.

Documents Available

For so long as any of the Notes is outstanding, copies of the Indenture may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

For so long as any of the Notes is outstanding, copies of the accountants' reports and/or our published financial statements, if any, including the accountants' report set out in the section entitled "Index to Consolidated Financial Statements" in this offering memorandum, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

Clearing Systems and Settlement

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

	ISIN	Common Code
2017 Notes	XS0850023093	085002309
2022 Notes	XS0851996925	085199692

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear and Clearstream.

Listing of the Notes

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. Such approval will be granted when the Notes are admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering memorandum. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore where the Notes may be presented or surrendered for payment or redemption in the event that a Global Note is exchanged for Definitive Notes. In addition, in the event that a Global Note is exchanged for Definitive Notes, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Notes, including details of the paying agent in Singapore, for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

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Notes:

- (1) The unaudited condensed consolidated interim financial statements set out herein has been reproduced from the Company's interim report for the six months ended June 30, 2012 and page references are to pages set forth in such report.
- (2) The audited consolidated financial statements set out herein have been reproduced from the Company's annual report for the year ended December 31, 2011, and page references are references to pages set forth in such report.
- (3) The audited consolidated financial statements set out herein have been reproduced from the Company's annual report for the year ended December 31, 2010, and page references are references to pages set forth in such report.

Review Report

Review report to the Board of Directors of SOHO China Limited

(Incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 2 to 24, which comprises the consolidated balance sheet of SOHO China Limited as of 30 June 2012 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and fair presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

16 August 2012

Consolidated Income Statement

For the six months ended 30 June 2012 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Turnover	3	1,222,378	2,645,634
Cost of properties sold		(640,869)	(1,128,708)
Gross profit		581,509	1,516,926
Valuation gains on investment properties	7	423,351	1,997,026
Other revenue and income		90,473	103,542
Selling expenses		(54,056)	(107,545)
Administrative expenses		(90,463)	(79,119)
Other operating expenses		(63,846)	(54,013)
Profit from operations		886,968	3,376,817
Financial income	4(a)	272,123	234,846
Financial expenses	4(a)	(195,950)	(132,159)
Share of profit of a jointly controlled entity	9	77,105	–
Profit before taxation	4	1,040,246	3,479,504
Income tax	5	(397,590)	(1,283,642)
Profit for the period		642,656	2,195,862
Attributable to:			
Equity shareholders of the Company		612,575	1,750,143
Non-controlling interests		30,081	445,719
Profit for the period		642,656	2,195,862
Earnings per share (RMB)	6		
Basic		0.118	0.337
Diluted		0.118	0.324

The notes on pages 8 to 24 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company attributable to the profit for the interim period are set out in Note 15(a).

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Profit for the period	642,656	2,195,862
Other comprehensive income for the period (after tax and reclassification adjustments):		
Exchange differences on translation of financial statements of foreign operations	(26,686)	107,540
Total comprehensive income for the period	615,970	2,303,402
Attributable to:		
Equity shareholders of the Company	585,889	1,857,683
Non-controlling interests	30,081	445,719
Total comprehensive income for the period	615,970	2,303,402

The notes on pages 8 to 24 form part of this interim financial report.

SOHO China Limited / Interim Report 2012

Consolidated Balance Sheet

At 30 June 2012 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current assets			
Investment properties	7	13,918,000	13,334,500
Property and equipment	8	685,228	688,140
Bank deposits		1,515,784	1,222,115
Interest in a jointly controlled entity	9	4,111,387	–
Deferred tax assets		948,692	901,918
Total non-current assets		21,179,091	16,146,673
Current assets			
Properties under development and completed properties held for sale	10	27,966,452	23,428,529
Deposits and prepayments		3,233,950	5,066,025
Trade and other receivables	11	1,672,604	549,471
Bank deposits		1,809,699	2,582,919
Cash and cash equivalents	12	5,873,318	11,906,157
Total current assets		40,556,023	43,533,101
Current liabilities			
Bank loans		3,206,352	2,214,593
Sales deposits	13	15,931,019	13,198,710
Trade and other payables	14	3,166,040	1,949,503
Taxation		4,227,112	5,681,681
Total current liabilities		26,530,523	23,044,487
Net current assets		14,025,500	20,488,614
Total assets less current liabilities		35,204,591	36,635,287

The notes on pages 8 to 24 form part of this interim financial report.

SOHO China Limited / Interim Report 2012

Consolidated Balance Sheet

At 30 June 2012 – unaudited (continued)
(Expressed in Renminbi)

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current liabilities			
Bank loans		8,317,951	9,422,836
Convertible bonds		2,049,643	1,986,897
Contract retention payables		223,086	276,677
Deferred tax liabilities		1,848,963	1,731,255
Total non-current liabilities		12,439,643	13,417,665
NET ASSETS		22,764,948	23,217,622
CAPITAL AND RESERVES	15		
Share capital		107,502	107,502
Reserves		21,653,043	21,615,261
Total equity attributable to equity shareholders of the Company		21,760,545	21,722,763
Non-controlling interests		1,004,403	1,494,859
TOTAL EQUITY		22,764,948	23,217,622

Approved and authorised for issue by the board of directors on 16 August 2012.

Pan Shiyi)	
)	
)	Directors
Pan Zhang Xin Marita)	
)	

The notes on pages 8 to 24 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 – unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company											Non-controlling interests	Total equity
	Note	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Revaluation reserve RMB'000	General reserve fund RMB'000	Retained profits RMB'000	Total RMB'000		
At 1 January 2011		107,485	11,424,236	(8,775)	867	561,389	(623,637)	216,232	402,387	7,162,548	19,242,732	736,636	19,979,368
Profit for the period		-	-	-	-	-	-	-	-	1,750,143	1,750,143	445,719	2,195,862
Other comprehensive income		-	-	-	-	-	107,540	-	-	-	107,540	-	107,540
Total comprehensive income		-	-	-	-	-	107,540	-	-	1,750,143	1,857,683	445,719	2,303,402
Dividends approved in respect of the previous year	15(a)(ii)	-	-	-	-	-	-	-	-	(726,359)	(726,359)	-	(726,359)
Shares issued under the employees' share option schemes	15(c)	10	4,011	-	-	(954)	-	-	-	-	3,067	-	3,067
Employees' share award scheme	15(d)	-	-	-	-	631	-	-	-	-	631	-	631
Acquisition of a subsidiary		-	-	-	-	-	-	-	-	-	-	161,309	161,309
Capital contributions from non-controlling interests		-	-	-	-	-	-	-	-	-	-	6,000	6,000
Distributions to non-controlling interests		-	-	-	-	-	-	-	-	-	-	(41,200)	(41,200)
At 30 June 2011		107,495	11,428,247	(8,775)	867	561,066	(516,097)	216,232	402,387	8,186,332	20,377,754	1,308,464	21,686,218

	Attributable to equity shareholders of the Company											Non-controlling interests	Total equity
	Note	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Revaluation reserve RMB'000	General reserve fund RMB'000	Retained profits RMB'000	Total RMB'000		
At 1 January 2012		107,502	11,430,770	(26,300)	867	561,412	(643,292)	189,527	447,184	9,655,093	21,722,763	1,494,859	23,217,622
Profit for the period		-	-	-	-	-	-	-	-	612,575	612,575	30,081	642,656
Other comprehensive income		-	-	-	-	-	(26,686)	-	-	-	(26,686)	-	(26,686)
Total comprehensive income		-	-	-	-	-	(26,686)	-	-	612,575	585,889	30,081	615,970
Treasury shares	15(b)(ii)	-	-	(680)	-	-	-	-	-	-	(680)	-	(680)
Dividends approved in respect of the previous year	15(a)(ii)	-	(570,056)	-	-	-	-	-	-	-	(570,056)	-	(570,056)
Employees' share award scheme	15(c)	-	-	-	-	2,092	-	-	-	-	2,092	-	2,092
Vesting of shares of employees' share award scheme	15(c)	-	52	960	-	(1,012)	-	-	-	-	-	-	-
Acquisition of non-controlling interests without a change in control		-	-	-	-	-	-	-	-	20,537	20,537	(520,537)	(500,000)
Disposal of subsidiaries		-	-	-	-	-	-	-	(4,912)	4,912	-	-	-
At 30 June 2012		107,502	10,860,766	(26,020)	867	562,492	(669,978)	189,527	442,272	10,293,117	21,760,545	1,004,403	22,764,948

The notes on pages 8 to 24 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Cash generated from/(used in) operations		1,862,756	(924,289)
Tax paid		(1,874,438)	(2,597,942)
Net cash used in operating activities		(11,682)	(3,522,231)
Net cash used in investing activities		(4,746,327)	(1,795,463)
Net cash (used in)/generated from financing activities		(769,076)	147,733
Net decrease in cash and cash equivalents		(5,527,085)	(5,169,961)
Cash and cash equivalents at 1 January		11,202,232	14,034,497
Effect of foreign exchange rates changes		(9,862)	31,826
Cash and cash equivalents at 30 June	12	5,665,285	8,896,362

The notes on pages 8 to 24 form part of this interim financial report.

Notes to the Financial Statements

1 Basis of preparation

This interim financial report of SOHO China Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) has been prepared in accordance with the applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 16 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity”, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 1.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 14 March 2012.

Notes to the Financial Statements

2 Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*
- Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impacts of these developments are discussed below:

- The amendments to HKFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity needs not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.
- Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, *Investment property*, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

In respect of the Group's investment properties located in Mainland China, the Group determined that these properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time and consequently the presumption in the amended HKAS 12 is rebutted for these properties. As a result, the Group continues to measure the deferred tax relating to these other properties using the tax rate that would apply as a result of recovering their value through use.

These developments have had no material impact on the contents of this interim financial report.

Notes to the Financial Statements

3 Turnover and segment reporting

(a) Turnover

The principal activities of the Group are property development and property investments. Turnover represents revenue from the sale of property units and rental income from investment properties, net of business tax, analysed as follows:

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Sale of property units	1,146,253	2,611,114
Rental income from investment properties	76,125	34,520
	1,222,378	2,645,634

(b) Segment reporting

The Group manages its businesses based on development status of current projects, which are divided into completed projects held for sale, completed investment properties and projects under development. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

(i) Completed projects held for sale

This segment includes projects held for sale which have been completed and the Group has obtained completion certificates for those projects.

(ii) Completed investment properties

This segment includes projects which have been completed and are held to earn rental income.

(iii) Projects under development

This segment includes projects which are under development.

Notes to the Financial Statements

3 Turnover and segment reporting (continued)

(c) Segment results, assets and liabilities

The basis of segmentation or measurement of segment profit or loss for the current period is not different from the last annual consolidated financial statements.

	Completed projects held for sale		Completed investment properties		Projects under development		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income statement items								
Reportable segment revenue	1,146,253	2,611,114	76,125	34,520	-	-	1,222,378	2,645,634
Reportable segment gross profit	505,384	1,482,406	76,125	34,520	-	-	581,509	1,516,926
Reportable segment profit	471,672	834,790	161,213	572,231	330,935	1,055,762	963,820	2,462,783

	Completed projects held for sale		Completed investment properties		Projects under development		Total	
	At 30 June	At 31 December	At 30 June	At 31 December	At 30 June	At 31 December	At 30 June	At 31 December
	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance sheet items								
Reportable segment assets	31,156,013	32,833,720	5,707,826	5,542,011	54,324,388	43,685,066	91,188,227	82,060,797
Reportable segment liabilities	16,617,245	18,906,954	2,286,043	2,281,378	43,434,837	35,613,848	62,338,125	56,802,180

(d) Reconciliation of reportable segment profit

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit		
Reportable segment profit	963,820	2,462,783
Elimination of intra-group profit	(68,211)	(110,061)
Unallocated head office and corporate expenses	(252,953)	(156,860)
Consolidated profit	642,656	2,195,862

Notes to the Financial Statements

4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Financial income and financial expenses

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Financial income		
Interest income	(261,679)	(167,875)
Net foreign exchange gain	(10,444)	(9,926)
Net gain on financial assets at fair value through profit or loss: Held for trading	–	(57,045)
	(272,123)	(234,846)
Financial expenses		
Interest on bank loans	321,539	233,968
Interest expenses on the Convertible Bonds	94,143	92,723
Less: Interest expense capitalised into properties under development	(227,979)	(201,512)
	187,703	125,179
Bank charges and others	8,247	6,980
	195,950	132,159

(b) Other items

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Depreciation	10,640	7,807

Notes to the Financial Statements

5 Income tax

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Provision for the period		
– PRC Corporate Income Tax	131,057	251,290
– Land Appreciation Tax	195,599	510,230
Deferred tax	70,934	522,122
	397,590	1,283,642

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Company and the Company's subsidiaries registered in the BVI and the Cayman Islands are not subject to any income tax.
- (ii) In accordance with the Corporate Income Tax Law of the People's Republic of China, the income tax rate applicable to the Company's subsidiaries in the People's Republic of China (the "PRC") is 25% (2011: 24% to 25%).
- (iii) In accordance with the Land Appreciation Tax Law of the PRC, Land Appreciation Tax is levied at the properties developed by the Group for sale in the PRC. Land Appreciation Tax is charged on the appreciated amount at progressive rates ranged from 30% to 60%.
- (iv) According to the Implementation Rules of the Corporate Income Tax Law of the People's Republic of China, the Company's subsidiaries in the PRC are levied a 10% withholding tax on dividends declared to their foreign investment holding companies arising from profit earned subsequent to 1 January 2008. In respect of dividends that are subject to the withholding tax, provision for withholding tax is recognised for the dividends that have been declared, and deferred tax liability is recognised for those to be declared in the foreseeable future.

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2012 of RMB612,575,000 (2011: RMB1,750,143,000) and the weighted average of 5,182,213,000 ordinary shares (2011: 5,185,768,000) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2012 is based on the profit attributable to ordinary equity shareholders of the Company of RMB612,575,000 and the weighted average of 5,184,018,000 ordinary shares after adjusting for the effect of vesting of shares under the employees' share award scheme.

The convertible bonds issued in July 2009 and the share options granted to the employees did not have dilutive effect as at 30 June 2012.

The calculation of diluted earnings per share for the six months ended 30 June 2011 is based on the profit attributable to ordinary equity shareholders of the Company of RMB1,842,866,000 and the weighted average of 5,694,729,000 ordinary shares after adjusting for the effect of conversion of convertible bonds issued in July 2009, deemed issue of shares under the employees' share option scheme, and vesting of shares under the employees' share award scheme.

Notes to the Financial Statements

9 Interest in a jointly controlled entity (continued)

Details of the Group's interest in the jointly controlled entity are as follows:

Name of jointly controlled entity	Form of business structure	Place of incorporation	Principal activities	Particulars of paid-in capital/ registered capital	Proportion of ownership interest held by a subsidiary
Shanghai Haizhimen Property Investment Management Co., Ltd.	Incorporated	Shanghai, the PRC	Investing holding and development of the Bund 8-1 Land project	RMB1,000,000,000	50%

Note:

- (i) Loans to a jointly controlled entity, included in the interest in a jointly controlled entity, represented advances of RMB3,106,333,000 to Shanghai Haizhimen Property Investment Management Co., Ltd. ("Shanghai Haizhimen"), which were interest-free, except for a balance amounting to RMB257,660,000 that bore interest at a fixed interest rate of 13.8% per annum. All advances were unsecured and had no fixed term of repayment.

Summary financial information on jointly controlled entity – the Group's effective interest:

	At 30 June 2012 RMB'000
Non-current assets	5,151,683
Current assets	517,358
Non-current liabilities	(25,702)
Current liabilities	(4,638,285)
Net assets	1,005,054
	Six months ended 30 June 2012 RMB'000
Income	102,807
Expenses	(25,702)
Profit for the period	77,105

Notes to the Financial Statements

10 Properties under development and completed properties held for sale

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Properties under development	21,366,471	18,083,646
Completed properties held for sale	6,599,981	5,344,883
	27,966,452	23,428,529

11 Trade and other receivables

Included in trade and other receivables are trade receivables with the following ageing analysis:

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Current		34,200	47,380
Less than 1 month past due		34,202	33,189
1 to 6 months past due		4,824	1,000
6 months to 1 year past due		27,171	16,960
More than 1 year past due		62,773	62,633
Amounts past due		128,970	113,782
Trade receivables		163,170	161,162
Other receivables	(i)	1,510,986	389,861
Less: allowance for doubtful debts		(1,552)	(1,552)
		1,672,604	549,471

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group would not release the property ownership certificates to the buyers before the buyers finally settle the selling price.

Note:

- (i) Other receivables included the receivable amounting to RMB1,050,723,000 from Richwise Holdings Limited ("Richwise"), a subsidiary of Greentown China Holdings Limited ("Greentown China"), as a guarantee deposit of remaining consideration payable amounting to RMB1,050,000,000 included in trade and other payables (see Note 14(ii)) on acquisition of Shanghai Greentown Plaza Development Co., Ltd. ("Shanghai Greentown") (see Note 17). Greentown China issued a letter to the Group to guarantee that Greentown China would repay the guarantee deposit if Richwise fails to repay it after the Group settles the relevant considerations.

Notes to the Financial Statements

12 Cash and cash equivalents

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Cash on hand	777	748
Cash at bank and other financial institutions	3,362,415	6,662,633
Term deposits with banks and other financial institutions	2,510,126	5,242,776
Cash and cash equivalents in the consolidated balance sheets	5,873,318	11,906,157
Less: Term deposits with banks and other financial institutions over 3 months	208,033	703,925
Cash and cash equivalents in the condensed consolidated cash flow statements	5,665,285	11,202,232

13 Sales deposits

Sales deposits represented proceeds received on property unit sales that have not been recognised as revenue in accordance with the Group's revenue recognition policy.

14 Trade and other payables

Included in trade and other payables are accrued expenditure on land and construction with the following ageing analysis as of the balance sheet date:

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Due within 1 month or on demand		300,078	236,604
Due after 1 month but within 3 months		696,000	538,044
Accrued expenditure on land and construction	(i)	996,078	774,648
Consideration payable for acquisition of subsidiaries and a jointly controlled entity	(ii)	1,212,024	71,318
Amounts due to related parties	18(a)	327,308	327,308
Others		476,195	569,946
Financial liabilities measured at amortised costs		3,011,605	1,743,220
Other taxes payable		154,435	206,283
		3,166,040	1,949,503

Note:

- (i) These accrued expenditure payables on land and construction are expected to be settled within a year.
- (ii) Consideration payable included a balance amounting to RMB1,050,000,000 on acquisition of Shanghai Greentown (see Note 11(ii)).

Notes to the Financial Statements

1.5 Capital, reserves and dividends

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Interim dividend proposed after the balance sheet date of RMB0.12 per ordinary share (2011: RMB0.14 per ordinary share)	622,649	726,412

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of RMB0.11 per ordinary share (2011: RMB0.14 per ordinary share)	570,056	726,359

(b) Share capital and treasury shares

(i) Share capital

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	No. of shares ('000)	Share capital RMB'000	No. of shares ('000)	Share capital RMB'000
Authorised:				
Ordinary shares of HKD0.02 each	7,500,000		7,500,000	
Issued and fully paid:				
At 1 January	5,188,656	107,502	5,187,657	107,485
Shares issued under the employees' share option schemes	-	-	619	10
At 30 June	5,188,656	107,502	5,188,276	107,495

Notes to the Financial Statements

15 Capital, reserves and dividends (continued)

(b) Share capital and treasury shares (continued)

(ii) Treasury shares

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	No. of shares (‘000)	Treasury shares RMB’000	No. of shares (‘000)	Treasury shares RMB’000
At 1 January	6,593	26,300	2,210	8,775
Purchase of treasury shares	156	680	–	–
Vesting of employees’ share award scheme	(262)	(960)	–	–
At 30 June	6,487	26,020	2,210	8,775

Details of treasury shares purchased during the six months ended 30 June 2012 are as follows:

Month/year	Number of shares purchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD’000
June 2012	155,500	5.37	5.27	838,269

During the six months ended 30 June 2012, a subsidiary of the Group purchased 155,500 shares of the Company on the Stock Exchange of Hong Kong Limited, at a total consideration of HKD838,000, for the employees’ share award scheme launched on 23 December 2010 (see Note 15(d)).

No shares were purchased for the employees’ share award scheme by the Group during the six months ended 30 June 2011.

Notes to the Financial Statements

15 Capital, reserves and dividends (continued)

(c) Employees' share option schemes

The Company has adopted a Pre-IPO share option scheme and an IPO share option scheme on 14 September 2007, whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at HKD1 consideration to subscribe for shares of the Company. 12,058,000 shares under the Pre-IPO share option scheme, 7,259,000 shares and 1,080,000 shares under the IPO share option scheme were granted on 8 October 2007, 30 January 2008 and 30 June 2008, had an exercise price of HKD8.30, HKD6.10 and HKD4.25, and had a weighted average remaining contractual life of 17 months. The options vest in a period of three years from the date of grant and are then exercisable within a period of six years. Each option gives the holder the right to subscribe for one ordinary share in the Company. No options were granted during the six months ended 30 June 2012.

During the six months ended 30 June 2011, options were exercised to subscribe for 619,000 ordinary shares of the Company at consideration of HKD3,641,000 of which HKD12,000 was credited to share capital and the balance of HKD3,629,000 was credit to the share premium. HKD1,133,000 has been transferred from capital reserve to share premium.

No options were exercised during the six months ended 30 June 2012.

(d) Employees' share award scheme

An employees' share award scheme in which all employees (including without limitation any executive directors) of the Group would be entitled to participate was launched by the Group on 23 December 2010. The purpose of the employees' share award scheme is to give incentive to participants in order to retain them for the continued operation and development of the Group. Vested shares will be transferred at no cost to the selected employees. For employees who are granted the shares but cease employment with the Group before vesting, the unvested shares are forfeited.

The fair value of each share granted is based on the share price at grant date which could be obtained from the stock market directly. Shares are granted under a service condition. There are no market conditions associated with the share awards.

During the six months ended 30 June 2012, 1,300,000 shares (2011: 735,000 shares) out of 2,210,000 treasury shares purchased in September 2009 were granted to certain employees. The vesting period is three years from the date of grant. The fair value of the shares granted are HKD6,810,000 (2011: HKD4,380,000).

During the six months ended 30 June 2012, the employees' share award scheme transferred 262,000 shares to the awardees upon vesting of certain awarded shares and the shares arising from related dividends reinvested. The total cost of the vested shares was HKD1,177,000.

No shares were vested during the six months ended 30 June 2011.

Notes to the Financial Statements

16 Commitments and contingent liabilities

(a) Commitments

- (i) Commitments in respect of properties under development, investment properties and purchase of properties outstanding at 30 June 2012 and 31 December 2011 not provided for in the financial statements were as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Contracted for	5,443,224	4,546,727
Authorised but not contracted for	7,505,728	7,228,262
	12,948,952	11,774,989

The Group's share of the jointly controlled entity's own capital commitments, which is not included in the above, is as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Authorised but not contracted for	2,493,810	–

- (ii) Commitments in respect of equity investments outstanding at 30 June 2012 and 31 December 2011 not provided for in the financial statements were as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Contracted for	250	3,756,152
Authorised but not contracted for	–	500,000
	250	4,256,152

Notes to the Financial Statements

16 Commitments and contingent liabilities (continued)

(b) Guarantees

The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of property units. The Group has given guarantees on mortgage loans provided to the buyers by these banks. For most mortgages, the guarantees will be released when the property title deeds are pledged to banks as security for the respective mortgage loans, which generally take place within one year after the property units are delivered to the buyers. The total amounts of mortgages outstanding which are guaranteed by the Company's subsidiaries as at 30 June 2012 was RMB3,441,504,000 (2011: RMB4,776,176,000).

(c) Warranty against defects of properties

Properties purchased by buyers are provided with various warranties of term between one to five years against certain defects as stipulated in the PRC laws and regulations which are covered by back-to-back warranties provided by the relevant contractors of the projects.

(d) Legal contingencies

On 4 June 2012, the Group was served with a document of summons issued by Shanghai No. 1 Intermediate People's Court in relation to a court action initiated by a subsidiary of Fosun International Limited ("Fosun Group"), who holds the other 50% equity interests of Shanghai Haizhimen, that requested orders to be made to invalidate the acquisition of Shanghai Haizhimen by the Group. Fosun Group takes the view that the transaction breached its pre-emptive right to acquire the remaining equity interests in the Bund 8-1 Land.

The Company and its PRC legal advisers take the view that, the acquisition does not involve a transfer of equity interest in Shanghai Haizhimen and therefore, the Company believes that the acquisition of the entire equity interests in the shareholders of Shanghai Haizhimen does not constitute a breach of any pre-emptive rights as alleged by Fosun Group.

As at the date of this report, the directors of the Company, after consultation with the PRC legal advisers, do not consider it probable that orders will be made to invalidate the acquisition. In case Fosun Group prevails in its suit, Shanghai Haizhimen will discontinue to be a jointly controlled entity of the Group and the consideration paid for the acquisition of Shanghai Haizhenmen will be refunded from the original shareholders.

Other than the above litigation, the Group is a defendant in certain other lawsuits as well as the named party in other proceedings arising in the normal course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the directors believe that any resulting liabilities will not have a material adverse effect on the financial position, liquidity, or operating results of the Group.

Notes to the Financial Statements

17 Acquisition of a subsidiary

In April 2012, SOHO (Shanghai) Investment Co., Ltd., a wholly-owned subsidiary of the Company, acquired the entire equity interests in Shanghai Greentown at a total consideration of RMB2,129,420,000. Shanghai Greentown owns the land use rights to a parcel of land located at Tianshan Road, Changning District, Shanghai, the PRC.

The assets acquired and liabilities assumed did not constitute a business as defined in HKFRS 3 and, therefore, the acquisition has been accounted for as an asset acquisition. The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	RMB'000
Property and equipment	39
Properties under development and completed properties held for sale	2,174,684
Trade and other receivables	703
Cash and cash equivalents	52
Trade and other payables	(46,058)
<hr/>	
Net assets and liabilities	2,129,420
<hr/>	
Total consideration	2,129,420
Consideration payables	(1,050,000)
Cash acquired	(52)
<hr/>	
Net cash outflow	1,079,368

Notes to the Financial Statements

18 Material related party transactions

(a) Amounts due to related parties

Amounts due to related parties, included in current liabilities, comprise:

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Shanghai Yi Dian	(i)	151,254	151,254
Shanghai Rural Commercial Bank	(i)	151,254	151,254
Mr. Pan Shiyi	(ii)	24,800	24,800
	14	327,308	327,308

(i) The balances as at 30 June 2012 and 31 December 2011 mainly represented the advances of RMB302,508,000 from Shanghai Yi Dian Holdings (Group) Co., Ltd. ("Shanghai Yi Dian") and Shanghai Rural Commercial Bank, the non-controlling equity holders of Shanghai Ding Ding Real Estate Development Co., Ltd. which were incurred before the acquisition by the Group. The advances were interest-free, unsecured and had no fix term of repayment.

(ii) The balances as at 30 June 2012 and 31 December 2011 represented the dividend payable to Mr. Pan Shiyi, the non-controlling shareholder of Beijing SOHO Real Estate Co., Ltd. ("Beijing SOHO") which was declared by Beijing SOHO of RMB24,800,000 in December 2010.

(b) Other related party transactions

Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita entered into guarantee agreements with a bank with respect to the long-term bank loans amounted to RMB1,656,939,000 as at 30 June 2012 (31 December 2011: RMB1,683,657,000) provided to the Group. The guarantees will be released upon the repayment of the bank loans.

Independent auditor's report /

Independent auditor's report to the shareholders of SOHO China Limited

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of SOHO China Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 57 to 144, which comprise the consolidated and company balance sheets as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's consolidated profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
14 March 2012

Consolidated income statement for the year ended 31 December 2011 /

(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Turnover	2	5,684,822	18,215,091
Cost of properties sold		(2,954,246)	(8,958,349)
Gross profit		2,730,576	9,256,742
Valuation gains on investment properties	10	4,027,445	165,000
Other revenue and income		276,142	207,438
Selling expenses		(237,661)	(547,437)
Administrative expenses		(210,511)	(204,776)
Other operating expenses		(134,097)	(153,132)
Profit from operations		6,451,894	8,723,835
Financial income	3(a)	559,453	224,394
Financial expenses	3(a)	(350,752)	(292,351)
Government grants	4	201,285	44,190
Profit before taxation	3	6,861,880	8,700,068
Income tax	5(a)	(2,375,458)	(4,928,485)
Profit for the year		4,486,422	3,771,583
Attributable to:			
Equity shareholders of the Company		3,892,308	3,636,156
Non-controlling interests		594,114	135,427
Profit for the year		4,486,422	3,771,583
Earnings per share (RMB)	9		
Basic		0.751	0.701
Diluted		0.716	0.673

The notes on pages 65 to 144 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 24(b).

Consolidated statement of comprehensive income for the year ended 31 December 2011 /

(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Profit for the year		4,486,422	3,771,583
Other comprehensive income for the year (after tax and reclassification adjustments):			
Exchange differences on translation of financial statements of foreign operations	24(d)(iii)	(19,655)	41,556
Surplus on revaluation of office premises, net of deferred tax	11(a)	70,481	–
Total comprehensive income for the year		4,537,248	3,813,139
Attributable to:			
Equity shareholders of the Company		3,943,134	3,677,712
Non-controlling interests		594,114	135,427
Total comprehensive income for the year		4,537,248	3,813,139

The notes on pages 65 to 144 form part of these financial statements.

Consolidated balance sheet at 31 December 2011 /

(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Investment properties	10	13,334,500	3,085,000
Property and equipment	11	688,140	554,161
Bank deposits	18	1,222,115	3,840,915
Interest in jointly controlled entity	13	-	1,211,900
Deferred tax assets	14(b)	901,918	1,019,420
Total non-current assets		16,146,673	9,711,396
Current assets			
Properties under development and completed properties held for sale	15	23,428,529	18,697,483
Deposits and prepayments	16	5,066,025	1,006,408
Trade and other receivables	17	549,471	790,224
Bank deposits	18	2,582,919	-
Cash and cash equivalents	19	11,906,157	17,724,921
Total current assets		43,533,101	38,219,036
Current liabilities			
Bank loans	20	2,214,593	2,580,744
Sales deposits	21	13,198,710	6,720,091
Trade and other payables	22	1,949,503	2,586,354
Taxation	14(a)	5,681,681	6,966,710
Total current liabilities		23,044,487	18,853,899
Net current assets		20,488,614	19,365,137
Total assets less current liabilities		36,635,287	29,076,533

The notes on pages 65 to 144 form part of these financial statements.

Consolidated balance sheet at 31 December 2011 (continued) /

(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Bank loans	20	9,422,836	6,052,171
Convertible bonds	23	1,986,897	1,984,828
Contract retention payables		276,677	273,732
Deferred tax liabilities	14(b)	1,731,255	786,434
Total non-current liabilities		13,417,665	9,097,165
NET ASSETS			
		23,217,622	19,979,368
CAPITAL AND RESERVES			
	24		
Share capital		107,502	107,485
Reserves		21,615,261	19,135,247
Total equity attributable to equity shareholders of the Company		21,722,763	19,242,732
Non-controlling interests		1,494,859	736,636
TOTAL EQUITY		23,217,622	19,979,368

Approved and authorised for issue by the board of directors on 14 March 2012.

Directors

Pan Shiyi

Pan Zhang Xin Marita

The notes on pages 65 to 144 form part of these financial statements.

Balance sheet at 31 December 2011 /

(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Investments in subsidiaries	12	294,423	294,423
Bank deposits	18	148,635	–
Total non-current assets		443,058	294,423
Current assets			
Properties under development and completed properties held for sale		–	31,662
Trade and other receivables	17	15,746,009	14,542,590
Cash and cash equivalents	19	1,307,747	457,312
Total current assets		17,053,756	15,031,564
Current liabilities			
Bank loans	20	628,293	680,744
Other payables		48,999	64,005
Amounts due to subsidiaries		1,004,253	1,032,489
Total current liabilities		1,681,545	1,777,238
Net current assets		15,372,211	13,254,326
Total assets less current liabilities		15,815,269	13,548,749
Non-current liabilities			
Bank loans	20	3,733,631	–
Convertible bonds	23	1,986,897	1,984,828
Total non-current liabilities		5,720,528	1,984,828
NET ASSETS		10,094,741	11,563,921
CAPITAL AND RESERVES			
Share capital	24	107,502	107,485
Reserves		9,987,239	11,456,436
TOTAL EQUITY		10,094,741	11,563,921

Approved and authorised for issue by the board of directors on 14 March 2012.

Directors
Pan Shiyi Pan Zhang Xin Marita

The notes on pages 65 to 144 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2011 /

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company											Non-controlling interests	Total equity
	Note	Share capital	Share premium	Treasury shares	Capital redemption reserve	Capital reserve	Exchange reserve	Revaluation reserve	General reserve fund	Retained profits	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2010		107,485	11,424,236	(8,775)	867	559,934	(665,193)	216,232	395,681	5,193,148	17,223,615	218,912	17,442,527
Profit for the year		-	-	-	-	-	-	-	-	3,636,156	3,636,156	135,427	3,771,583
Other comprehensive income		-	-	-	-	-	41,556	-	-	-	41,556	-	41,556
Total comprehensive income		-	-	-	-	-	41,556	-	-	3,636,156	3,677,712	135,427	3,813,139
Dividends approved in respect of the previous year	24(b)(i)	-	-	-	-	-	-	-	-	(1,037,531)	(1,037,531)	-	(1,037,531)
Dividends declared in respect of the current year	24(b)(i)	-	-	-	-	-	-	-	-	(622,519)	(622,519)	-	(622,519)
Employees' share option schemes		-	-	-	-	1,455	-	-	-	-	1,455	-	1,455
Transfer to general reserve fund	24(d)(v)	-	-	-	-	-	-	-	6,706	(6,706)	-	-	-
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	-	409,149	409,149
Capital contributions from non-controlling interests		-	-	-	-	-	-	-	-	-	-	35,270	35,270
Distributions to noncontrolling interests		-	-	-	-	-	-	-	-	-	-	(62,122)	(62,122)
At 31 December 2010		107,485	11,424,236	(8,775)	867	561,389	(623,637)	216,232	402,387	7,162,548	19,242,732	736,636	19,979,368
At 1 January 2011		107,485	11,424,236	(8,775)	867	561,389	(623,637)	216,232	402,387	7,162,548	19,242,732	736,636	19,979,368
Profit for the year		-	-	-	-	-	-	-	-	3,892,308	3,892,308	594,114	4,486,422
Other comprehensive income		-	-	-	-	-	(19,655)	70,481	-	-	50,826	-	50,826
Total comprehensive income		-	-	-	-	-	(19,655)	70,481	-	3,892,308	3,943,134	594,114	4,537,248
Treasury shares	24(c)(i)	-	-	(17,525)	-	-	-	-	-	-	(17,525)	-	(17,525)
Dividends approved in respect of the previous year	24(b)(i)	-	-	-	-	-	-	-	-	(726,050)	(726,050)	-	(726,050)
Dividends declared in respect of the current year	24(b)(i)	-	-	-	-	-	-	-	-	(726,102)	(726,102)	-	(726,102)
Shares issued under the employees' share option schemes	24(c)(i)	17	6,534	-	-	(1,556)	-	-	-	-	4,995	-	4,995
Employees' share award scheme	26(b)	-	-	-	-	1,579	-	-	-	-	1,579	-	1,579
Transfer to general reserve fund	24(d)(v)	-	-	-	-	-	-	-	44,797	(44,797)	-	-	-
Acquisition of subsidiaries	30	-	-	-	-	-	-	-	-	-	-	161,309	161,309
Realisation of revaluation reserve		-	-	-	-	-	(97,186)	-	-	97,186	-	-	-
Capital contributions from non-controlling interests		-	-	-	-	-	-	-	-	-	-	6,000	6,000
Distributions to noncontrolling interests		-	-	-	-	-	-	-	-	-	-	(3,200)	(3,200)
At 31 December 2011		107,502	11,430,770	(26,300)	867	561,412	(643,292)	189,527	447,184	9,655,093	21,722,763	1,494,859	23,217,622

The notes on pages 65 to 144 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2011 /

(Expressed in Renminbi)

	2011 RMB'000	2010 RMB'000
Operating activities		
Profit before taxation	6,861,880	8,700,068
Adjustments for:		
Valuation gains on investment properties	(4,027,445)	(165,000)
Depreciation	19,323	18,302
Financial income	(559,453)	(224,394)
Interest expense	329,699	265,914
Loss on sale of property and equipment	180	241
Gain on liquidation of subsidiaries	(109,018)	–
Equity-settled share-based payment expense	1,579	1,455
Changes in working capital:		
Increase in deposits and prepayments	(3,836,087)	(63,003)
Decrease/(increase) in trade and other receivables	243,837	(118,845)
(Increase)/decrease in properties under development and completed properties held for sale	(2,962,535)	6,173,839
Increase in sales deposits	6,478,619	1,405,817
Increase in trade and other payables	(3,436,518)	(920,802)
Cash (used in)/generated from operation	(995,939)	15,073,592
Interest received	377,274	153,707
Interest paid	(620,642)	(509,669)
Income tax paid	(2,990,350)	(1,927,683)
Net cash (used in)/generated from operating activities	(4,229,657)	12,789,947

The notes on pages 65 to 144 form part of these financial statements.

Consolidated cash flow statement
for the year ended 31 December 2011 (continued) /

(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Cash flows from investing activities			
Payment for purchase of investment properties		(419,671)	(52,705)
Payment for purchase of property and equipment		(59,748)	(6,156)
Proceeds from sale of property and equipment		849	269
Decrease/(increase) in term deposits with banks and other financial institutions over 3 months		2,986,499	(1,571,313)
Decrease/(increase) in bank deposits		35,881	(2,563,224)
Net cash outflow arising from the acquisition of subsidiaries		(1,630,466)	(1,521,935)
Payment for acquisition of interest in jointly controlled entity		-	(961,900)
Payment for purchase of financial assets at fair value through profit or loss		(15,483,824)	-
Proceeds from settlement of financial assets at fair value through profit or loss		15,548,896	-
Net cash generated from/(used in) investing activities		978,416	(6,676,964)
Cash flows from financing activities			
Proceeds from bank loans		5,301,279	5,802,703
Repayment of bank loans		(3,325,935)	(3,489,448)
Proceeds from shares issued under the employees' share option schemes	24(c)(i)	4,995	-
Payment for purchase of treasury shares	24(c)(ii)	(17,525)	-
Dividends paid to equity shareholders of the Company		(1,452,152)	(1,660,050)
Capital contribution from non-controlling interests		6,000	35,270
Distributions to non-controlling interests		(32,350)	(1,972)
Net cash generated from financing activities		484,312	686,503
Net (decrease)/increase in cash and cash equivalents		(2,766,929)	6,799,486
Cash and cash equivalents at 1 January		14,034,497	7,122,768
Effect of foreign exchange rate changes		(65,336)	112,243
Cash and cash equivalents at 31 December	19	11,202,232	14,034,497

The notes on pages 65 to 144 form part of these financial statements.

Notes to the financial statements /

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

The functional currency of the Company is Hong Kong dollars ("HKD"). The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the subsidiaries carrying out the principal activities of the Group. The consolidated financial statements are prepared on the historical cost basis, except for investment properties (see Note 1(g)), office premises (see Note 1(h)), derivative financial instruments (see Note 1(f)) and convertible bonds (see Note 1(l)), which are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 31.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, HKAS 24 (revised 2009), Related party disclosures and Improvements to HKFRSs (2010) are relevant to the Group's financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impacts of these developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in Note 27 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

1 Significant accounting policies (continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statements and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Notes 1(l), (m) or (n) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

1 Significant accounting policies (continued)

(d) Subsidiaries and non-controlling interests (continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see Note 1(e)).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 1(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

1 Significant accounting policies (continued)

(e) Associates and jointly controlled entities (continued)

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 1(e)).

In the Company's balance sheet, investments in associates and jointly controlled entities are stated at cost less impairment losses (see Note 1(i)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(f) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

1 Significant accounting policies (continued)

(g) Investment properties

Investment properties are land and/or buildings which are owned to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties, including completed investment properties and investment properties under construction, are stated at fair value, unless they are still in the course of construction or development at the balance sheet date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in Note 1(s)(ii).

(h) Property and equipment

Office premises are stated at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Serviced apartment properties, that are owner-occupied properties from which the Group earns apartment service income, and other items of equipment are stated at cost less accumulated depreciation and impairment losses (see Note 1(i)).

Changes arising on the revaluation of office premises are generally dealt with in other comprehensive income and are accumulated separately in equity in the revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

1 Significant accounting policies (continued)

(h) Property and equipment (continued)

Cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure incurred after the asset has been placed into operations is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are charged to profit or loss in the period incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Office premises and serviced apartment properties situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.
- Office equipment 5 years
- Motor vehicles 8 years

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 Significant accounting policies (continued)

(i) Impairment of assets

(i) Impairment of investments in debt and equity securities and receivables

Investments in debt and equity securities (other than investments in subsidiaries: see Note 1(i)(ii)) and current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment 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 becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- 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.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and jointly controlled entities recognised using the equity method (see Note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 1(i)(ii).

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and receivables (continued)

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property and equipment (other than office premises carried at revalued amounts) and investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)) may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 1(i)(i) and (ii)).

(j) Properties under development and completed properties held for sale

Properties under development and completed properties held for sale in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see Note 1(u)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed property held for resale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the properties to their present location and condition.

1 Significant accounting policies (continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see Note 1(i)).

(l) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

1 Significant accounting policies (continued)

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(p) Employee benefits

- (i) Short term employee benefits and contributions to defined contribution retirement plans
- Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contributions retirement scheme as required under relevant People's Republic of China (the "PRC") laws and regulations are charged to profit or loss when incurred.

1 Significant accounting policies (continued)

(p) Employee benefits (continued)

(ii) Share-based payments

The fair value of share options granted to employees under the employees' share option schemes and shares granted to employees under the employees' share award scheme (the "Awarded Shares") is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value of share options is measured at grant date using the Black-Scholes Model, taking into account the terms and conditions upon which the options were granted. The fair value of Awarded Shares is measured at quoted share price at grant date. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options or Awarded Shares, the total estimated fair value of the options or Awarded Shares is spread over the vesting period, taking into account the probability that the options or Awarded Shares will vest.

During the vesting period, the number of share options or Awarded Shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options or Awarded Shares that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised or the Awarded Shares are transferred to the employees (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1 Significant accounting policies (continued)

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

1 Significant accounting policies (continued)

(g) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant accounting policies (continued)

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(r)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 1(r)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 1(r)(iii).

1 Significant accounting policies (continued)

(r) Financial guarantees issued, provisions and contingent liabilities (continued)

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of properties

Revenue arising from the sale of properties held for sale is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers. Revenue from sales of properties excludes business tax and is after deduction of any trade discounts. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet as sales deposits.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Rental income from operating leases excludes business tax. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1 Significant accounting policies (continued)

(s) Revenue recognition (continued)

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Dividend

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

(v) Commission income

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(vi) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

1 Significant accounting policies (continued)

(t) Translation of foreign currencies (continued)

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Operating lease payments

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

1 Significant accounting policies (continued)

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(b) An entity is related to the Group if any of the following conditions applies:

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Significant accounting policies (continued)

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Turnover and segment reporting

(a) Turnover

The principal activities of the Group are property development and property investments. Turnover represents revenue from the sale of property units and rental income from investment properties, net of business tax, analysed as follows:

	2011 RMB'000	2010 RMB'000
Sale of property units	5,593,729	18,105,453
Rental income from investment properties	91,093	109,638
	5,684,822	18,215,091

(b) Segment reporting

The Group manages its businesses based on development status of current projects, which are divided into completed projects held for sale, completed investment properties and projects under development. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

2 Turnover and segment reporting (continued)

(b) Segment reporting (continued)

(i) Completed projects held for sale

This segment includes projects which have been completed and the Group has obtained completion certificates for those projects.

(ii) Completed investment properties

This segment includes one project which has been completed and is held to earn rental income.

(iii) Projects under development

This segment includes projects which are under development.

(c) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets and liabilities include all non-current assets and liabilities and current assets and liabilities with the exception of unallocated head office and corporate assets and liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. Head office and corporate expenses are not allocated to individual segments.

Segment profit represents the profit after taxation generated by individual segments.

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Management is provided with segment information concerning turnover, cost of properties sold, gross profit, valuation gain on investment properties, net operating expenses, financial income, financial expenses, government grants, income tax, investment properties, properties under development and completed properties held for sale, cash and cash equivalents, bank deposits, bank loans, and additions to investment properties and property and equipment.

2 Turnover and segment reporting (continued)

(c) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below:

	Completed projects held for sale		Completed investment properties		Projects under development		Total	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Income statement items								
Reportable segment revenue	5,593,729	18,105,453	91,093	109,638	-	-	5,684,822	18,215,091
Cost of properties sold	(2,954,246)	(8,958,349)	-	-	-	-	(2,954,246)	(8,958,349)
Reportable segment gross profit	2,639,483	9,147,104	91,093	109,638	-	-	2,730,576	9,256,742
Valuation gain on investment properties	-	-	1,585,793	165,000	2,579,522	-	4,165,315	165,000
Operating income/(expenses), net	41,464	(537,016)	(18,061)	(12,524)	(51,315)	31,818	(27,912)	(517,722)
Financial income	333,535	110,226	1,288	439	150,966	40,304	485,789	150,969
Financial expenses	(126,539)	(89,901)	(76,089)	(35,021)	(93,689)	(1,121)	(296,317)	(126,043)
Government grants	192,305	43,584	7,966	606	1,014	-	201,285	44,190
Reportable segment profit before taxation	3,080,248	8,673,997	1,591,990	228,138	2,586,498	71,001	7,258,736	8,973,136
Income tax	(1,422,067)	(4,607,237)	(397,997)	(58,337)	(660,597)	(27,277)	(2,480,661)	(4,692,851)
Reportable segment profit	1,658,181	4,066,760	1,193,993	169,801	1,925,901	43,724	4,778,075	4,280,285
Balance sheet items								
Investment properties	-	-	5,332,500	3,085,000	8,002,000	-	13,334,500	3,085,000
Properties under development and completed properties held for sale	5,718,209	4,310,400	-	-	18,021,736	14,551,698	23,739,945	18,862,098
Cash and cash equivalents	8,873,968	9,133,533	16,955	126,202	1,648,841	7,628,566	10,539,764	16,888,301
Bank deposits	818,266	3,475,864	-	-	2,838,133	365,051	3,656,399	3,840,915
Bank loans	1,500,000	1,800,000	925,000	925,000	2,800,000	1,900,000	5,225,000	4,625,000
Reportable segment assets (including investment in joint ventures)	32,833,720	27,924,091	5,542,011	4,140,916	43,685,066	31,922,348	82,060,797	63,987,355
Reportable segment liabilities	18,906,954	24,522,362	2,281,378	2,266,774	35,613,848	15,462,439	56,802,180	42,251,575
Additions to investment properties and property and equipment	51,448	6,106	469,207	-	2,849,853	50	3,370,508	6,156

2 Turnover and segment reporting (continued)

(d) Reconciliations of reportable segment profit or loss, assets and liabilities

	2011 RMB'000	2010 RMB'000
Valuation gains on investment properties		
Reportable valuation gains on investment properties	4,165,315	165,000
Adjustment for expenses capitalised in preparing the consolidated financial statements	(137,870)	–
Consolidated valuation gains on investment properties	4,027,445	165,000
Profit		
Reportable segment profit	4,778,075	4,280,285
Elimination of intra-group profit	(23,810)	(31,809)
Unallocated head office and corporate expenses	(267,843)	(476,893)
Consolidated profit	4,486,422	3,771,583
Properties under development and completed properties held for sale		
Reportable segment properties under development and completed properties held for sale	23,739,945	18,862,098
Elimination of intra-group transactions	(311,416)	(164,615)
Consolidated properties under development and completed properties held for sale	23,428,529	18,697,483
Bank deposits		
Reportable segment bank deposits	3,656,399	3,840,915
Unallocated head office and corporate bank deposits	148,635	–
Consolidated bank deposits	3,805,034	3,840,915

2 Turnover and segment reporting (continued)

(d) Reconciliations of reportable segment profit or loss, assets and liabilities (continued)

	2011 RMB'000	2010 RMB'000
Cash and cash equivalents		
Reportable segment cash and cash equivalents	10,539,764	16,888,301
Unallocated head office and corporate cash and cash equivalents	1,366,393	836,620
Consolidated cash and cash equivalents	11,906,157	17,724,921
Bank loans		
Reportable segment bank loans	5,225,000	4,625,000
Unallocated head office and corporate bank loans	6,412,429	4,007,915
Consolidated bank loans	11,637,429	8,632,915
Assets		
Reportable segment assets	82,060,797	63,987,355
Elimination of intra-group balances	(28,638,995)	(21,019,059)
Unallocated head office and corporate assets	6,257,972	4,962,136
Consolidated total assets	59,679,774	47,930,432
Liabilities		
Reportable segment liabilities	56,802,180	42,251,575
Elimination of intra-group balances	(28,444,034)	(20,915,600)
Unallocated head office and corporate liabilities	8,104,006	6,615,089
Consolidated total liabilities	36,462,152	27,951,064

3 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Financial income and financial expenses

	2011 RMB'000	2010 RMB'000
Financial income		
Interest income	(425,127)	(153,707)
Net foreign exchange gain	(69,254)	(70,687)
Net gain on settlement of financial assets at fair value through profit or loss:		
Held for trading	(65,072)	–
	(559,453)	(224,394)
Financial expenses		
Interest on bank loans wholly repayable within five years	538,062	356,363
Interest on bank loans wholly repayable above five years	57,961	34,134
Interest expenses on the Convertible Bonds	185,290	185,511
Less: Interest expense capitalised into properties under development*	(451,614)	(310,094)
	329,699	265,914
Bank charges and others	21,053	26,437
	350,752	292,351

* The borrowing costs were capitalised at a rate of 4.58% – 7.44% per annum (2010: 5.16% – 8.05%).

3 Profit before taxation (continued)**(b) Staff costs**

	Note	2011 RMB'000	2010 RMB'000
Salaries, wages and other benefits		193,937	178,122
Contributions to defined contribution retirement plan		13,122	10,852
Equity-settled share-based payment expenses	26	1,579	1,455
		208,638	190,429

(c) Other items

	2011 RMB'000	2010 RMB'000
Depreciation	19,323	18,302
Auditors' remuneration		
– audit services	6,711	6,937
– tax services	1,199	2,029
– other services	727	1,260
Operating lease charges in respect of properties	–	5,747
Rentals receivable from investment properties less direct outgoings of RMB nil (2010: RMB nil)	91,093	109,638

4 Government grants

The Group received total government grants of RMB201,285,000 (2010: RMB44,190,000) in relation to certain completed projects from the Finance Bureau of Dongcheng District of Beijing and the Financial Bureau of Jingan District of Shanghai pursuant to the regulations issued by the respective local governments.

5 Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	<i>Note</i>	2011 RMB'000	2010 RMB'000
PRC Corporate Income Tax			
– Provision for the year		485,418	2,143,577
– Under-provision in respect of prior years		27,815	24,231
Land Appreciation Tax		822,163	3,025,314
Deferred tax	<i>14(b)</i>	1,040,062	(264,637)
		2,375,458	4,928,485

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Company and the Company’s subsidiaries registered in the BVI and the Cayman Islands are not subject to any income tax.
- (ii) In accordance with the Corporate Income Tax Law of the People’s Republic of China, the income tax rate applicable to the Company’s subsidiaries in the PRC is ranged from 24% to 25% (2010: 22% to 25%).
- (iii) In accordance with the Land Appreciation Tax Law of the PRC, Land Appreciation Tax is levied at the properties developed by the Group for sale in the PRC. Land Appreciation Tax is charged on the appreciated amount at progressive rates ranged from 30% to 60%.
- (iv) According to the Implementation Rules of the Corporate Income Tax Law of the People’s Republic of China, the Company’s subsidiaries in the PRC are levied a 10% withholding tax on dividends declared to their foreign investment holding companies arising from profit earned subsequent to 1 January 2008. In respect of dividends that are subject to the withholding tax, provision for withholding tax is recognised for the dividends that have been declared, and deferred tax liability is recognised for those to be declared in the foreseeable future.

5 Income tax in the consolidated income statement (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2011 RMB'000	2010 RMB'000
Profit before taxation	6,861,880	8,700,068
Income tax computed by applying the tax rate of 25% (2010: 25%) to profit before taxation	1,715,470	2,175,017
Tax effect of Land Appreciation Tax deductible for PRC Corporate Income Tax	(145,550)	(756,329)
Effect of withholding tax at 10% on the profits of the Group's PRC subsidiaries (Note 5(a)(iv))	-	206,371
Effect of differential tax rate on profit	(86,467)	48,861
Tax effect of unused tax losses not recognised	3,823	(6,694)
Under-provision in prior years	27,815	24,231
Tax effect of non-deductible expenses	38,204	211,714
Provision for Land Appreciation Tax for the year	822,163	3,025,314
Actual tax expense	2,375,458	4,928,485

6 Directors' remuneration

Details of directors' remuneration are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments (Note 6(l))	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011						
Chairman						
Pan Shiyi	240	5,528	30	5,798	-	5,798
Executive directors						
Pan Zhang Xin Marita	240	4,947	-	5,187	-	5,187
Yan Yan	240	5,050	30	5,320	657	5,977
Tong Ching Mau	240	3,844	-	4,084	219	4,303
Independent non-executive directors						
Ramin Khadem	298	-	-	298	-	298
Cha Mou Zing Victor	255	-	-	255	-	255
Yi Xiqun	255	-	-	255	-	255
	1,768	19,369	60	21,197	876	22,073

6 Directors' remuneration (continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (Note 6(i)) RMB'000	Total RMB'000
2010						
Chairman						
Pan Shiyi	240	5,688	29	5,957	–	5,957
Executive directors						
Pan Zhang Xin Marita	240	5,145	–	5,385	–	5,385
Yan Yan	240	5,009	29	5,278	164	5,442
Wang Shaojian Sean (resigned on 31 May 2010)	100	2,274	–	2,374	61	2,435
Tong Ching Mau (appointed on 24 December 2010)	–	70	–	70	41	111
Independent non-executive directors						
Ramin Khadem	298	–	–	298	–	298
Cha Mou Zing Victor	255	–	–	255	–	255
Yi Xiqun	255	–	–	255	–	255
	1,628	18,186	58	19,872	266	20,138

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors of the Company waived or agreed to waive any remuneration during the year.

Note:

- (i) These represent the fair value of share options and Awarded Shares granted to the directors under the employees' share option schemes and the employees' share award scheme, respectively. The value of these share options and Awarded Shares is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 1(p)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options and the Awarded Shares granted, are disclosed in Note 26.

7 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2010: three) are directors whose emoluments are disclosed in Note 6. The aggregate of the emoluments in respect of the other one (2010: two) individual are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other emoluments	4,058	7,502
Retirement scheme contributions	-	29
Share-based payments	132	127
	4,190	7,658

The emoluments of the one (2010: two) individual with the highest emoluments are within the following bands:

RMB	2011 Number of individuals	2010 Number of individuals
3,500,001 – 4,000,000	-	2
4,000,001 – 4,500,000	1	-

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB279,946,000 (2010: RMB171,078,000) which has been dealt with in the financial statements of the Company.

9 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB3,892,308,000 (2010: RMB3,636,156,000) and the weighted average of 5,185,179,000 ordinary shares (2010: 5,185,447,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Note	2011 '000	2010 '000
Issued ordinary shares at 1 January		5,187,657	5,187,657
Effect of share options exercised	24(c)(i)	658	–
Effect of treasury shares	24(c)(ii)	(3,136)	(2,210)
Weighted average number of ordinary shares during the year		5,185,179	5,185,447

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB4,077,598,000 (2010: RMB3,821,667,000) and the weighted average number of ordinary shares of 5,696,893,000 shares (2010: 5,675,558,000), calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2011 RMB'000	2010 RMB'000
Profit attributable to ordinary equity shareholders	3,892,308	3,636,156
After tax effect of effective interest on the liability component of the Convertible Bonds	185,290	185,511
Profit attributable to ordinary equity shareholders (diluted)	4,077,598	3,821,667

9 Earnings per share (continued)

(b) Diluted earnings per share (continued)

(ii) Weighted average number of ordinary shares (diluted)

	2011 '000	2010 '000
Weighted average number of ordinary shares	5,185,179	5,185,447
Effect of conversion of the Convertible Bonds	510,646	489,724
Effect of deemed issue of shares under the employee's share option schemes	470	387
Effect of vesting of the Awarded Shares	598	-
Weighted average number of ordinary shares (diluted)	5,696,893	5,675,558

10 Investment properties – the Group

	Note	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Cost or valuation:				
At 1 January 2010		2,920,000	-	2,920,000
Fair value adjustment		165,000	-	165,000
At 31 December 2010		3,085,000	-	3,085,000
At 1 January 2011		3,085,000	-	3,085,000
Additions		469,207	2,841,553	3,310,760
Transfer from properties under development and completed properties held for sale		192,500	-	192,500
Acquisition of a subsidiary	30	-	2,718,795	2,718,795
Fair value adjustment		1,585,793	2,441,652	4,027,445
At 31 December 2011		5,332,500	8,002,000	13,334,500

10 Investment properties – the Group (continued)

(a) Revaluation of investment properties

The completed investment properties of the Group were revalued as at 31 December 2011 and 31 December 2010 on an open market value basis by making reference to comparable sales transaction as available in the relevant market, and where appropriate, taking into account of the valuation based on the income capitalization approach. The valuations were carried out by CB Richard Ellis Ltd. (“CBRE”), a firm of independent qualified valuers in Hong Kong with recent experience in the location and category of property being valued.

Management of the Group has concluded that the fair value of its investment properties under development as at 31 December 2011 can be measured reasonably, therefore, the Group’s investment properties under development were measured at fair value on 31 December 2011. The valuations were carried out by CBRE by using residual method of valuation which is common in valuing development sites by establishing the market value of the properties on an “as-if” completed basis with appropriate deduction on construction costs, professional fees and interest payments to be incurred as well as developer’s profits. The resultant figures were adjusted back to present values to reflect the existing state of the investment properties under development as at 31 December 2011.

(b) Certain investment properties of the Group were pledged against the bank loans, details are set out in Note 20.

(c) The net book value of investment properties of RMB13,334,500,000 as at 31 December 2011 (2010: RMB3,085,000,000) were under medium-term leases in the PRC.

11 Property and equipment – the Group

	Office premises RMB'000	Serviced apartment properties RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation:						
At 1 January 2010	288,534	455,017	33,587	7,092	-	784,230
Additions	-	-	6,152	4	-	6,156
Transfer to properties under development and completed properties held for sale	-	(129,351)	-	-	-	(129,351)
Acquisition of a subsidiary	-	-	247	2,052	-	2,299
Disposals	-	-	(99)	(2,574)	-	(2,673)
At 31 December 2010	288,534	325,666	39,887	6,574	-	660,661
Representing:						
Cost	-	325,666	39,887	6,574	-	372,127
Valuation – 2008	288,534	-	-	-	-	288,534
	288,534	325,666	39,887	6,574	-	660,661
At 1 January 2011	288,534	325,666	39,887	6,574	-	660,661
Additions	-	-	9,748	-	50,000	59,748
Transfer to construction in process	-	(306,946)	-	-	256,666	(50,280)
Transfer from construction in process	-	306,666	-	-	(306,666)	-
Acquisition of subsidiaries (Note 30)	-	-	368	391	-	759
Disposals	-	-	(3,356)	(1,696)	-	(5,052)
Surplus on revaluation	65,928	-	-	-	-	65,928
At 31 December 2011	354,462	325,386	46,647	5,269	-	731,764
Representing:						
Cost	-	325,386	46,647	5,269	-	377,302
Valuation – 2011	354,462	-	-	-	-	354,462
	354,462	325,386	46,647	5,269	-	731,764

11 Property and equipment – the Group (continued)

	Office premises RMB'000	Serviced apartment properties RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation:						
At 1 January 2010	14,357	73,196	21,488	2,978	-	112,019
Charge for the year	6,845	6,964	3,477	1,016	-	18,302
Written back on transfer to properties under development and completed properties held for sale	-	(23,635)	-	-	-	(23,635)
Acquisition of a subsidiary	-	-	192	1,785	-	1,977
Written back on disposals	-	-	(49)	(2,114)	-	(2,163)
At 31 December 2010	21,202	56,525	25,108	3,665	-	106,500
At 1 January 2011	21,202	56,525	25,108	3,665	-	106,500
Charge for the year	6,845	7,399	4,347	732	-	19,323
Written back on transfer to construction in process	-	(50,280)	-	-	-	(50,280)
Acquisition of subsidiaries (Note 30)	-	-	77	74	-	151
Written back on disposals	-	-	(3,157)	(866)	-	(4,023)
Elimination on revaluation	(28,047)	-	-	-	-	(28,047)
At 31 December 2011	-	13,644	26,375	3,605	-	43,624
Net book value:						
At 31 December 2011	354,462	311,742	20,272	1,664	-	688,140
At 31 December 2010	267,332	269,141	14,779	2,909	-	554,161

11 Property and equipment – the Group (continued)**(a) Revaluation of office premises**

The Group's office premises were revalued as at 31 December 2011 by the management on an open market value basis by making reference to comparable sales transaction as available in the relevant market. As at 31 December 2011, the revaluation surplus of RMB70,481,000 (2010: RMB nil) has been recognised in other comprehensive income and accumulated in the revaluation reserve of the Group, net of deferred tax.

The carrying amount of the office premises of the Group as at 31 December 2011 would have been RMB117,474,000 (2010: RMB120,557,000) had they been carried at cost less accumulated depreciation.

(b) The analysis of net book value of properties is as follows:

The net book value of office premises and serviced apartment properties in aggregate of RMB666,204,000 as at 31 December 2011 (2010: RMB536,473,000) were under medium-term leases in the PRC.

(c) Office premises and serviced apartment properties of the Group were pledged against the bank loans, details are set out in Note 20.**12 Investments in subsidiaries – the Company**

	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	294,423	294,423

12 Investments in subsidiaries – the Company (continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of Company	Place of establishment/ incorporation	Principal activities	Issued/paid-in capital	Attributable equity interest	
				Direct	Indirect
Beijing Redstone Newtown Real Estate Co., Ltd.*	Beijing, the PRC	Development of the Commune by the Great Wall project and operation of serviced apartment	USD10,000,000	–	95%
Hainan Redstone Industry Co., Ltd.*	Hainan, the PRC	Development of Boao Canal Village project	RMB20,000,000	–	98.1%
Beijing SOHO Real Estate Co., Ltd.*	Beijing, the PRC	Development of Sanlitun SOHO project	USD99,000,000	–	95%
Beijing Millennium Real Properties Development Co., Ltd.***	Beijing, the PRC	Development of Beijing Residency project	RMB96,000,000	–	100%
Beijing Yeli Real Properties Development Co., Ltd.***	Beijing, the PRC	Development of Phase II of Guanghualu SOHO project	RMB10,000,000	–	100%
Beijing Kaiheng Real Estate Co., Ltd.*	Beijing, the PRC	Development of Chaoyangmen SOHO project	USD12,000,000	–	100%
Beijing Suo Tu Shi Ji Investment Management Co., Ltd.***	Beijing, the PRC	Development of ZhongGuanCun SOHO project and Danling SOHO project	RMB10,000,000	–	100%
Beijing Zhanpeng Century Investment Management Co., Ltd.***	Beijing, the PRC	Investment in Tiananmen South (Qianmen) project	RMB50,000,000	–	100%
SOHO Exchange Limited (formerly known as "MSREF Anderson")	Cayman Islands	Development of The Exchange-SOHO project	USD1,000	–	100%

12 Investments in subsidiaries – the Company (continued)

Name of Company	Place of establishment/ incorporation	Principal activities	Issued/paid-in capital	Attributable equity interest	
				Direct	Indirect
Beijing Wangjing SOHO Real Estate Co., Ltd.*	Beijing, the PRC	Development of Wangjing SOHO project	USD99,000,000	–	100%
Beijing Bluewater Property Management Co., Ltd.**	Beijing, the PRC	Development of SOHO Nexus Centre project	USD120,000,000	–	100%
Shanghai Ding Ding Real Estate Development Co., Ltd.*	Shanghai, the PRC	Investment in Bund SOHO project	USD135,000,000	–	61.506%
SOHO (Shanghai) Investment Co., Ltd.***	Shanghai, the PRC	Development of Sky SOHO project (formerly known as “Hongqiao SOHO”) and SOHO Zhongshan Plaza project	RMB200,000,000	–	100%
Shanghai Hong Sheng Real Estate Development Co., Ltd.***	Shanghai, the PRC	Investment in SOHO Fuxing Plaza project	RMB840,000,000	–	80% Note (i)
Shanghai Hanggang Jiajie Real Estate Company Limited***	Shanghai, the PRC	Development of SOHO Hailun Plaza project	RMB101,450,000	–	100% Note (ii)
Shanghai Xusheng Property Co., Ltd.**	Shanghai, the PRC	Development of Hongkou SOHO project	USD180,000,000	–	100% Note (iii)

* The company is registered as a sino-foreign equity joint venture enterprise in the PRC.

** The company is registered as a wholly owned foreign enterprise in the PRC.

***The company is registered as a limited liability company in the PRC.

12 Investments in subsidiaries – the Company (continued)

(i) Shanghai Hong Sheng Real Estate Development Co., Ltd. (“Shanghai Hong Sheng”)

In 2011, SOHO (Shanghai) Investment Co., Ltd. (“SOHO Shanghai”), a wholly-owned subsidiary of the Company, acquired further 31.5239% equity interests of Shanghai Hong Sheng, the jointly controlled entity of the Group, at a consideration of RMB788,098,000. Consequently, the Group indirectly held 80% equity interests in Shanghai Hong Sheng. Shanghai Hong Sheng is the project company holding SOHO Fuxing Plaza project located in Lu Wan District of Shanghai, the PRC.

(ii) Shanghai Hanggang Jiajie Real Estate Company Limited (“Shanghai Hanggang”)

In 2011, SOHO Shanghai acquired the entire equity interests in Shanghai Hanggang from third parties at a consideration of RMB524,521,000. Shanghai Hanggang owns the land use rights to Hailun Road Station Land, which was renamed as SOHO Hailun Plaza project and is located in Hongkou District of Shanghai, the PRC.

(iii) Shanghai Xusheng Property Co., Ltd. (“Shanghai Xusheng”)

In 2011, the Group acquired Shanghai Xusheng at a consideration of RMB332,009,000. Shanghai Xusheng owns the land use rights to Sichuan North Road Station Land, which was renamed as Hongkou SOHO project and is located in Hongkou District of Shanghai, the PRC.

13 Interest in jointly controlled entity – the Group

	2011 RMB'000	2010 RMB'000
Share of net assets	–	1,211,900

Details of the Group's interest in the jointly controlled entity as at 31 December 2010 were as follows:

Name of jointly controlled entity	Form of business structure	Place of incorporation	Principal activities	Particulars of paid-in capital/ registered capital	Proportion of ownership interest held by a subsidiary
Shanghai Hong Sheng	Incorporated	Shanghai, the PRC	Investment in SOHO Fuxing Plaza project	RMB840,000,000	48.4761% Note (i)

(i) Shanghai Hong Sheng

In 2010, the Group entered into a cooperative framework agreement with a third party to acquire 48.4761% equity interests in Shanghai Hong Sheng, that develops Fu Xing Tian Di Centre project located at land lot No. 43, Lu Wan District, Shanghai, the PRC. In 2011, the Group acquired further 31.5239% equity interests of Shanghai Hong Sheng and Shanghai Hong Sheng has become a subsidiary of the Company thereafter (see Note 12(i)).

Summary financial information on jointly controlled entity – the Group's effective interest:

	2010 RMB'000
Non-current assets	30
Current assets	1,892,889
Non-current liabilities	(533,238)
Current liabilities	(147,781)
Net assets	1,211,900
Income	–
Expenses	–
Loss for the year	–

14 Income tax in the consolidated balance sheet – the Group

(a) Current taxation in the consolidated balance sheet represents:

	2011 RMB'000	2010 RMB'000
PRC Corporate Income Tax payable	1,197,308	1,898,219
Land Appreciation Tax payable	4,484,373	5,068,491
	5,681,681	6,966,710

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Note	Tax losses RMB'000	Properties under development and completed properties held for sale RMB'000	Investment properties RMB'000	Office premises RMB'000	Withholding tax on the equity increase of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2010		91,673	437,348	(536,115)	(39,682)	–	(46,776)
(Charged)/credited to profit and loss	5(a)	(90,518)	490,061	(41,250)	–	(93,656)	264,637
Acquisition of a subsidiary		–	15,125	–	–	–	15,125
At 31 December 2010		1,155	942,534	(577,365)	(39,682)	(93,656)	232,986
At 1 January 2011		1,155	942,534	(577,365)	(39,682)	(93,656)	232,986
Credited/(charged) to profit and loss	5(a)	12,987	(52,433)	(1,000,616)	–	–	(1,040,062)
Charged to revaluation reserve		–	–	–	(23,494)	–	(23,494)
Acquisition of subsidiaries	30	1,233	–	–	–	–	1,233
At 31 December 2011		15,375	890,101	(1,577,981)	(63,176)	(93,656)	(829,337)

14 Income tax in the consolidated balance sheet – the Group (continued)**(b) Deferred tax assets and liabilities recognised: (continued)****(ii) Reconciliation to the consolidated balance sheet:**

	2011 RMB'000	2010 RMB'000
Net deferred tax assets recognised in the consolidated balance sheet	901,918	1,019,420
Net deferred tax liabilities recognised in the consolidated balance sheet	(1,731,255)	(786,434)
	(829,337)	232,986

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses in certain subsidiaries of RMB246,905,000 as at 31 December 2011 (2010: RMB243,122,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant subsidiaries. As at 31 December 2011, RMB24,648,000, RMB116,294,000, RMB44,225,000, RMB39,523,000 and RMB22,215,000 of these tax losses will expire in 2012, 2013, 2014, 2015 and 2016, respectively.

(d) Deferred tax liabilities not recognised

As at 31 December 2011, temporary differences relating to the undistributed profits of the subsidiaries in the PRC amounted to RMB11,437,786,000 (2010: RMB5,280,469,000). Deferred tax liabilities of RMB1,143,779,000 (2010: RMB528,047,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

15 Properties under development and completed properties held for sale – the Group

	2011 RMB'000	2010 RMB'000
Properties under development	18,083,646	14,816,008
Completed properties held for sale	5,344,883	3,881,475
	23,428,529	18,697,483

(a) The analysis of carrying value of leasehold land included in properties under development and completed properties held for sale is as follows:

	2011 RMB'000	2010 RMB'000
In the PRC		
– long lease	131,511	209,739
– medium-term lease	18,613,515	14,362,693
	18,745,026	14,572,432

(b) The amount of properties under development expected to be recovered after more than one year is analysed as follows:

	2011 RMB'000	2010 RMB'000
Properties under development	12,929,899	13,243,249

All of the other properties under development and completed properties held for sale are expected to be recovered within one year.

(c) The cost of properties sold for the year ended 31 December 2011 amounted to RMB2,954,246,000 (2010: RMB8,958,349,000).

(d) Certain properties under development and completed properties held for sale of the Group were pledged against the bank loans, details are set out in Note 20.

16 Deposits and prepayments

Deposits and prepayments mainly represented amounts prepaid for acquisition of property development projects and construction fees.

The amount of the Group's deposits and prepayments expected to be recovered or recognised as expense after more than one year is RMB1,570,562,000 (2010: RMB491,103,000).

17 Trade and other receivables

	Note	2011 RMB'000	2010 RMB'000
The Group			
Trade receivables	(a)	161,162	360,211
Other receivables		389,861	433,876
Less: allowance for doubtful debts	(b)	(1,552)	(3,863)
		549,471	790,224
The Company			
Amounts due from subsidiaries		15,746,009	14,542,590

(a) Ageing analysis

The ageing analysis of trade receivables are as follows:

	2011 RMB'000	2010 RMB'000
Current	47,380	291,972
Less than 1 month past due	33,189	3
1 to 6 months past due	1,000	6,400
6 months to 1 year past due	16,960	852
More than 1 year past due	62,633	60,984
Amounts past due	113,782	68,239
	161,162	360,211

The Group's credit policy is set out in Note 27(a).

17 Trade and other receivables (continued)**(b) Impairment of trade and other receivables**

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see Note 1(i)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	3,863	7,720
Impairment loss recognised/(reversed), net	3,881	(3,857)
Uncollectible amounts written off	(6,192)	-
At 31 December	1,552	3,863

At 31 December 2011, the Group's trade and other receivables of RMB1,552,000 (2010: RMB3,863,000) were individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that no receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB1,552,000 (2010: RMB3,863,000) were recognised. The Group does not hold any collateral over these balances.

17 Trade and other receivables (continued)**(c) Trade and other receivables that are not impaired**

The ageing analysis of trade and other receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	224,649	563,106	15,746,009	14,542,590
Less than 1 month past due	54,785	30,227		
1 to 6 months past due	106,081	50,287		
6 months to 1 year past due	28,613	43,761		
More than 1 year past due	135,343	102,843		
	324,822	227,118		
	549,471	790,224		

Receivables that were neither past due nor impaired relate to customers and debtors for whom there was no recent history of default.

Receivables that were past due but not impaired mainly relate to a number of independent customers to whom the title of the property units have not been transferred and debtors that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group holds the title of the property units as collateral over the balance of trade receivables of RMB93,064,000 as at 31 December 2011 (2010: RMB243,004,000), and does not hold any collateral over the balance of other receivables.

18 Bank deposits

	Note	The Group		The Company	
		2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Bank deposits in non-current assets for:					
Guarantees for mortgage loans	(i)	818,266	1,109,093	-	-
Guarantees for bank loans	(ii)	148,635	2,571,727	148,635	-
Guarantees for construction fee payment	(iii)	255,214	160,095	-	-
		1,222,115	3,840,915	148,635	-
Bank deposits in current assets for:					
Guarantees for bank loans	(ii)	705,000	-		
Restricted cash related to pre-sale proceeds received	(iv)	1,877,919	-		
		2,582,919	-		
		3,805,034	3,840,915		

The above bank deposits are restricted as follows:

- (i) The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of the property units. As at 31 December 2011, the Group had deposits of RMB818,266,000 (2010: RMB1,109,093,000) as security for settlement of the mortgage instalments under these agreements. Should the mortgagors fail to pay the mortgage monthly instalments, the bank can draw down the security deposits up to the amount of outstanding mortgage instalments and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient. Such guarantee deposits will be released when the title of properties are pledged to banks or the related mortgage loans are repaid by buyers.

18 Bank deposits (continued)

- (ii) As at 31 December 2011, the Group had deposits of RMB853,635,000 (2010: RMB2,571,727,000) as non-cancellable guarantees on bank loans. Should the Group fail to settle the bank loans, the bank can draw down the deposits to settle the relevant sums and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient.
- (iii) As at 31 December 2011, pursuant to a government regulation, the Group had deposits of RMB255,214,000 (2010: RMB160,095,000) as non-cancellable guarantees on construction fees payable to construction contractors. Should the Group fail to settle related construction fees, the bank can draw down the deposits to settle the relevant sums and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient.
- (iv) In accordance with relevant government regulations, certain project companies of the Group are required to place the pre-sale proceeds of properties received of RMB1,877,919,000 (2010: RMB nil) at designated bank accounts as guarantee deposits for construction work of related properties as at 31 December 2011. The deposits can only be used for purchases of construction materials and payments of construction fee of the relevant properties upon the approval of Authorities of the Ministry of Housing and Urban-Rural Development and relevant banks. Such guarantee deposits will be released according to the completion stage of the related pre-sold properties.

19 Cash and cash equivalents

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Cash on hand	748	1,121	-	-
Cash at bank and other financial institutions	6,662,633	9,899,550	92,265	457,312
Term deposits with banks and other financial institutions	5,242,776	7,824,250	1,215,482	-
Cash and cash equivalents in the balance sheet	11,906,157	17,724,921	1,307,747	457,312
Less: Term deposits with banks and other financial institutions over 3 months	703,925	3,690,424		
Cash and cash equivalents in the consolidated cash flow statements	11,202,232	14,034,497		

20 Bank loans

(a) The bank loans were repayable as follows:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Within 1 year or on demand	2,214,593	2,580,744	628,293	680,744
After 1 year but within 2 years	3,656,815	3,323,222	1,866,815	-
After 2 years but within 5 years	5,311,021	1,803,949	1,866,816	-
After 5 years	455,000	925,000	-	-
	9,422,836	6,052,171	3,733,631	-
	11,637,429	8,632,915	4,361,924	680,744

The bank loans were secured as follows:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Secured	11,631,129	6,428,949	4,361,924	-
Unsecured	6,300	2,203,966	-	680,744
	11,637,429	8,632,915	4,361,924	680,744

20 Bank loans (continued)

(b) The following items were pledged and entities or individuals provided guarantees to secure and guarantee certain bank loans granted to the Group and the Company at 31 December:

- (i) As at 31 December 2011, RMB5,853,293,000 (2010: RMB4,625,000,000) bank loans of the Group and RMB628,293,000 (2010: RMB nil) bank loan of the Company were secured by following items:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Properties under development and completed properties held for sale	10,241,027	4,310,772	-	-
Investment properties	7,266,000	3,085,000	-	-
Bank deposits	705,000	503,741	705,000	-
	18,212,027	7,899,513	705,000	-

- (ii) As at 31 December 2011, RMB360,548,000 bank loans (2010: RMB367,026,000) of the Group were secured by the shares of two subsidiaries, i.e. 50% shares of Beijing Wangjing SOHO Real Estate Co., Ltd. and 100% shares of Beijing Yirun Century Investment Management & Consulting Co., Ltd..

- (iii) As at 31 December 2011, RMB1,683,657,000 bank loans (2010: RMB1,436,923,000) of the Group were secured by the shares of T&T International Investment Corporation, a subsidiary of the Group, and property and equipment of RMB666,204,000 (2010: a restricted bank deposit of RMB2,067,986,000) and guaranteed by Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita (see Note 29(c)(ii)).

- (iv) As at 31 December 2011, RMB3,733,631,000 bank loans (2010: RMB nil) of the Group and the Company were secured by bank deposits of RMB148,635,000, the total assets and shares of all foreign subsidiaries of the Company, excluding 27 foreign subsidiaries who directly or indirectly hold The Exchange-SOHO project, Wangjing SOHO project and Bund SOHO project.

20 Bank loans (continued)

(c) The effective interest rates per annum on bank loans at amortised cost are as follows:

	The Group		The Company	
	2011 %	2010 %	2011 %	2010 %
Bank loans included in current liabilities	2.15%-7.05%	2.7%-5.16%	1.51%-2.7%	2.7%
Bank loans included in non-current liabilities	4.58%-7.44%	2.03%-8.05%	4.58%-4.63%	–

(d) RMB3,733,631,000 bank loans (2010: RMB nil) are subject to the fulfilment of covenants relating to certain targets of the Group's results of operation and financial position and the ratio of distribution to profit attributable to equity shareholders of the Company, as are commonly found in lending arrangements with financial institutions. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 27(b). As at 31 December 2011, none of the covenants relating to drawn down facilities had been breached (2010: RMB nil).

21 Sales deposits – the Group

Sales deposits represented proceeds received on property unit sales that have not been recognised as revenue in accordance with the Group's revenue recognition policy.

22 Trade and other payables – the Group

	Note	2011 RMB'000	2010 RMB'000
Accrued expenditure on land and construction	(i)	774,648	806,709
Consideration payable for acquisition of subsidiaries and jointly controlled entity		71,318	621,461
Amounts due to related parties	29(a)	327,308	350,628
Others		569,946	605,870
		1,743,220	2,384,668
Financial liabilities measured at amortised costs			
Other taxes payable	(ii)	206,283	201,686
		1,949,503	2,586,354

Notes:

- (i) These accrued expenditure payables on land and construction are expected to be settled within a year.

The ageing analysis of accrued expenditure on land and construction is as follows:

	2011 RMB'000	2010 RMB'000
Due within 1 month or on demand	236,604	134,318
Due after 1 month but within 3 months	538,044	672,391
		774,648
		806,709

- (ii) Other taxes payable mainly comprised business tax payable, deed tax payable, urban real estate tax payable, stamp duty payable and withholding tax payable.

23 Convertible bonds

On 2 July 2009, the Company issued convertible bonds (the “Convertible Bonds”) due 2014, bearing interest at the rate of 3.75% per annum. The aggregate principal amount of the Convertible Bonds issued is HKD2,800,000,000. Each bond will at the option of the holder be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 11 August 2009 up to and including 25 June 2014 into the Company’s fully paid ordinary shares with a par value of HKD0.02 each at an initial conversion price of HKD5.88 per share subject to adjustment for, amongst other things, consolidation, subdivision or reclassification of shares, capitalisation of profits or reserve, capital distribution, right issues, issues at less than current market price, modification of rights of conversion, other offers to shareholders and other events which have a dilutive effect on the issued share capital of the Company. No adjustment shall be made to the conversion price where such adjustment (rounded down if applicable) would be less than one per cent of the conversion price then in effect. Any adjustment not required to be made, and any amount by which the conversion price has not been rounded down, shall be carried forward and taken into account in any subsequent adjustment. The interest is payable semi-annually. The Convertible Bonds are listed on Singapore Stock Exchange Securities Trading Limited.

As at 31 December 2011, the conversion price of the Convertible Bonds was adjusted to HKD5.42 per share as a result of the dividends declared for 2009 and 2010.

The initial recognition of the liability component of the Convertible Bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Interest expense is calculated using the effective interest method by applying the effective interest rate of 9.32% to the liability component. The excess of proceeds from the issuance of the Convertible Bonds, net of issuance costs, over the amount initially recognised as the liability component is recognised as the capital reserve in equity. The initial carrying amounts of liability and equity component of the Convertible Bonds were RMB1,914,959,000 and RMB514,395,000 upon issuance, respectively.

As at 31 December 2011, the carrying amounts of the liability component, including the accrued interests, and the equity component of the Convertible Bonds were RMB1,986,897,000 (2010: RMB1,984,828,000) and RMB514,395,000 (2010: RMB514,395,000), respectively.

24 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

Note	Share	Share	Capital	Capital	Exchange	Revaluation	Retained	Total
	capital	premium	redemption	reserve	reserve	reserve	profits	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	107,485	11,424,236	867	559,934	(1,091,686)	97,186	1,171,436	12,269,458
Total comprehensive income for the year	-	-	-	-	(476,977)	-	1,430,035	953,058
Dividends approved in respect of the previous year	24(b)	-	-	-	-	-	(1,037,531)	(1,037,531)
Dividends declared in respect of the current year	24(b)	-	-	-	-	-	(622,519)	(622,519)
Employees' share option schemes		-	-	-	1,455	-	-	1,455
At 31 December 2010	107,485	11,424,236	867	561,389	(1,568,663)	97,186	941,421	11,563,921
At 1 January 2011	107,485	11,424,236	867	561,389	(1,568,663)	97,186	941,421	11,563,921
Total comprehensive income for the year	-	-	-	-	(503,037)	-	480,054	(22,983)
Realisation of revaluation reserve		-	-	-	-	(97,186)	97,186	-
Dividends approved in respect of the previous year	24(b)	-	-	-	-	-	(726,359)	(726,359)
Dividends declared in respect of the current year	24(b)	-	-	-	-	-	(726,412)	(726,412)
Share issued under the employees' share option schemes	24(c)(i)	17	6,534	-	(1,556)	-	-	4,995
Employees' share award scheme	26(b)	-	-	-	1,579	-	-	1,579
At 31 December 2011	107,502	11,430,770	867	561,412	(2,071,700)	-	65,890	10,094,741

24 Capital, reserves and dividends (continued)**(b) Dividends****(i) Dividends payable to equity shareholders of the Company attributable to the year**

	2011 RMB'000	2010 RMB'000
Interim dividend declared and paid of RMB0.14 per ordinary share (2010: RMB0.12 per ordinary share)	726,412	622,519
Final dividend proposed after the balance sheet date of RMB0.11 per ordinary share (2010: RMB0.14 per ordinary share)	570,752	726,272
	1,297,164	1,348,791

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2011 RMB'000	2010 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.14 per ordinary share (2010: RMB0.20 per ordinary share)	726,359	1,037,531

24 Capital, reserves and dividends (continued)**(c) Share capital and treasury shares****(i) Share capital**

	2011		2010	
	No. of shares ('000)	Share capital RMB'000	No. of shares ('000)	Share capital RMB'000
Authorised: Ordinary shares of HKD0.02 each	7,500,000		7,500,000	
Issued and fully paid: At 1 January	5,187,657	107,485	5,187,657	107,485
Shares issued under the employees' share option schemes	999	17	–	–
At 31 December	5,188,656	107,502	5,187,657	107,485

During the year ended 31 December 2011, options were exercised to subscribe for 999,000 ordinary shares of the Company at consideration of HKD5,960,000 of which HKD20,000 was credited to share capital and the balance of HKD5,940,000 was credited to the share premium. HKD1,857,000 has been transferred from capital reserve to share premium in accordance with policy set out in Note 1(p)(ii).

24 Capital, reserves and dividends (continued)**(c) Share capital and treasury shares (continued)****(ii) Treasury shares**

	2011		2010	
	No. of shares ('000)	Treasury shares RMB'000	No. of shares ('000)	Treasury shares RMB'000
At 1 January	2,210	8,775	2,210	8,775
Purchase of treasury shares	4,383	17,525	-	-
At 31 December	6,593	26,300	2,210	8,775

During the year ended 31 December 2011, a subsidiary of the Group purchased 4,383,000 shares of the Company on The Stock Exchange of Hong Kong Limited, at a total consideration of HKD21,539,000, for the employees' share award scheme launched on 23 December 2010 (see Note 26(b)).

Details of treasury shares purchased during the year ended 31 December 2011 are as follows:

Month/year	Number of shares purchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD'000
September 2011	232,000	4.99	4.99	1,157
October 2011	3,113,000	5.09	4.75	15,194
November 2011	1,038,000	5.01	4.98	5,188
	4,383,000			21,539

24 Capital, reserves and dividends (continued)**(c) Share capital and treasury shares (continued)****(iii) Terms of unexpired and unexercised share options at balance sheet date**

Exercise period	Exercise price	2011 Number	2010 Number
8 October 2008 to 7 October 2013	HKD8.30	6,854,340	8,405,280
30 January 2009 to 29 January 2014	HKD6.10	3,129,000	4,712,000
30 June 2009 to 29 June 2014	HKD4.25	470,000	580,000
		10,453,340	13,697,280

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in Note 26.

(d) Nature and purpose of reserves**(i) Share premium**

The share premium account is governed by the Cayman Companies Law and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to equity shareholders; (b) paying up unissued shares of the Company to be issued to equity shareholders as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the Company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the Company.

No distribution or dividend may be paid to equity shareholders out of share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

24 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(ii) Capital reserve

The capital reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company and the Awarded Shares (see Note 26) and the equity component of the Convertible Bonds (see Note 23).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 1(t).

(iv) Revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for office premises in Note 1(h).

The revaluation reserve of the Company in respect of office premises is distributable to the extent of RMB nil (2010: RMB38,986,000).

(v) General reserve fund

Pursuant to the Articles of Association of the Company's subsidiaries in the PRC, appropriations to the general reserve fund were made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. The percentage for this appropriation was decided by the directors of the subsidiaries. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

(e) Distributability of reserves

At 31 December 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB11,496,660,000 (2010: RMB12,404,643,000), including retained profits, the share premium and the distributable revaluation reserve as disclosed in Notes 24(d)(i) and 24(d)(iv), respectively. After the balance sheet date the directors proposed a final dividend of RMB0.11 cents per ordinary share (2010: RMB14 cents per ordinary share), amounting to RMB570,752,000 (2010: RMB726,272,000). This dividend has not been recognised as a liability at the balance sheet date.

24 Capital, reserves and dividends (continued)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can fund its development and construction of real estate projects, and continue to provide returns for shareholders, by pricing properties commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to strictly control the debt level. The Group maintains a strategy on acquiring land only if the project development can commence within a short period of time so as to minimise the time period between acquisition and development of the acquired land, thus the Group's capital can be efficiently deployed.

Consistent with industry practice, the Group monitors its capital structure on the basis of a gearing ratio, which was unchanged from 2007, as defined by the Group, being the total of bank and interest bearing borrowings (including convertible bonds) divided by the total assets. As at 31 December 2011, the gearing ratio of the Group was 22.83% (2010: 22.15%).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25 Employee benefit plan

The Group participates in a defined contribution retirement scheme established by the Beijing Municipal Labour Bureau and Shanghai Municipal Labour Bureau for its staff. The Group was required to make contributions to the retirement scheme at 20% and 22% of the gross salaries of its staff in Beijing and Shanghai, respectively, during the years ended 31 December 2011 and 2010.

The Group has no other obligation for the payment of post-retirement benefits beyond the contributions described above.

26 Equity settled share-based transactions

(a) Employees' share option schemes

The Company has adopted a Pre-IPO share option scheme and an IPO share option scheme on 14 September 2007, whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at HKD1 consideration to subscribe for shares of the Company. The options vest in a period of three years from the date of grant and are then exercisable within a period of six years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

- (i) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 8 October 2007	1,573,750	Three years from the date of grant	6 years
– on 30 January 2008	1,124,000	Three years from the date of grant	6 years
– on 30 June 2008	500,000	Three years from the date of grant	6 years
Options granted to employees:			
– on 8 October 2007	10,484,250	Three years from the date of grant	6 years
– on 30 January 2008	6,135,000	Three years from the date of grant	6 years
– on 30 June 2008	580,000	Three years from the date of grant	6 years
Total share options	20,397,000		

26 Equity settled share-based transactions (continued)**(a) Employees' share option schemes (continued)**

(ii) The number and weighted average exercise prices of share options are as follows:

	2011		2010	
	Weighted average exercise price HKD	Number of options '000	Weighted average exercise price HKD	Number of options '000
Outstanding at the beginning of the year	7.37	13,697	7.30	17,089
Exercised during the year	5.96	(999)	–	–
Forfeited during the year	7.59	(2,245)	6.99	(3,392)
Outstanding at the end of the year	7.46	10,453	7.37	13,697
Exercisable at the end of the year	7.46	10,453	7.59	11,933

The options outstanding at 31 December 2011 and 2010 had an exercise price of HKD8.30, HKD6.10 or HKD4.25 and a weighted average remaining contractual life of 23 months (2010: 35 months).

26 Equity settled share-based transactions (continued)**(a) Employees' share option schemes (continued)****(iii) Fair value of share options and assumptions**

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes Model.

	Granted on 30 June 2008	Granted on 30 January 2008	Granted on 8 October 2007
Fair value at measurement date	HKD1.51	HKD2.24	HKD3.25
Share price	HKD4.25	HKD6.10	HKD8.30
Exercise price	HKD4.25	HKD6.10	HKD8.30
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes Model)	49.36%	46.35%	45.91%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	4 years	4 years	4 years
Expected dividends	2.278%	0.5192%	0.478%
Risk-free interest rate (based on Exchange Fund Notes)	3.111%	1.980%	3.9275%

The expected volatility is based on the historic volatility of the share price over the most recent period, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on the dividends policies of the Company.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(b) Employees' share award scheme

An employees' share award scheme in which all employees (including without limitation any executive directors) of the Group would be entitled to participate was launched by the Group on 23 December 2010. The purpose of the employees' share award scheme is to give incentive to participants in order to retain them for the continued operation and development of the Group. Vested shares will be transferred at no cost to the selected employees. For employees who are granted the shares but cease employment with the Group before vesting, the unvested shares are forfeited.

26 Equity settled share-based transactions (continued)

(b) Employees' share award scheme (continued)

The fair value of each share granted is based on the share price at grant date which could be obtained from the stock market directly. Shares are granted under a service condition. There are no market conditions associated with the shares awards.

On 9 March 2011, 735,000 shares out of 2,210,000 treasury shares purchased in September 2009 were granted to certain employees. The vesting period is three years from the date of grant. The fair value of the Award Shares are HKD4,380,000. No shares were granted in addition to 735,000 shares on 9 March 2011.

27 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. The Group would not release the property ownership certificates to the buyers before the buyers finally settle the selling price.

As at 31 December 2011 and 2010, the Group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

(b) Liquidity risk

Historically, the Group relied to a great extent on proceeds received from pre-sale of property units (sold in advance of the completion of the real estate projects) to fund its development and construction of real estate projects. As there is no assurance that proceeds received from future pre-sales of the Group's current real estate projects will be sufficient to meet the Group's needs, the Group's operating plan requires it to raise additional funds to finance the development and construction of its current real estate projects. If the Group is unable to raise additional equity or debt financing, the Group's expansion plans and operations might need to be curtailed.

27 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses, issuing convertible bonds, and the raising of loans to cover expected cash demands, subject to approval by the Company's board of directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

	2011						2010					
	Contractual undiscounted cash outflow						Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years		More than 2 years		Carrying amount at 31 December	Within 1 year or on demand	More than 1 year but less than 2 years		More than 2 years		Carrying amount at 31 December
		2 years	5 years	5 years	Total			2 years	5 years	5 years	Total	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
The Group												
Bank loans	(2,731,026)	(4,063,370)	(5,680,761)	(506,508)	(12,981,665)	11,637,429	(2,923,484)	(3,505,539)	(2,948,027)	(1,295,116)	(10,672,166)	8,632,915
Convertible bonds	(85,124)	(85,124)	(2,312,994)	-	(2,483,242)	1,986,897	(89,348)	(89,348)	(2,517,122)	-	(2,695,818)	1,984,828
Contract retention payables	-	(26,677)	(250,000)	-	(276,677)	276,677	-	(48,251)	(225,461)	-	(273,732)	273,732
Financial liabilities measured at amortised costs	(1,743,220)	-	-	-	(1,743,220)	1,743,220	(2,384,668)	-	-	-	(2,384,668)	2,384,668
	(4,559,370)	(4,175,171)	(8,243,755)	(506,508)	(17,484,804)	15,644,223	(5,397,500)	(3,643,138)	(5,690,630)	(1,295,116)	(16,026,384)	13,276,143
The Company												
Bank loans	(776,169)	(2,044,495)	(1,943,475)	-	(4,764,139)	4,361,924	(684,828)	-	-	-	(684,828)	680,744
Convertible bonds	(85,124)	(85,124)	(2,312,994)	-	(2,483,242)	1,986,897	(89,348)	(89,348)	(2,517,122)	-	(2,695,818)	1,984,828
Other payables	(43,377)	-	-	-	(43,377)	43,377	(59,714)	-	-	-	(59,714)	59,714
Amounts due to subsidiaries	(1,004,253)	-	-	-	(1,004,253)	1,004,253	(1,032,489)	-	-	-	(1,032,489)	1,032,489
	(1,908,923)	(2,129,619)	(4,256,469)	-	(8,295,011)	7,396,451	(1,866,379)	(89,348)	(2,517,122)	-	(4,472,849)	3,751,775

27 Financial risk management and fair values (continued)

(c) Interest rate risk

The interest rates of the Group's bank loans and convertible bonds are disclosed in Note 20 and Note 23, respectively. The annual interest rates of the Group's deposits at bank ranged from 0.36% to 3.30% as at 31 December 2011 (2010: 0.36% to 2.50%).

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in borrowing interest rates for bank loans, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB23,643,000 (2010: RMB30,853,000) and would increase/decrease the Group's properties under development and completed properties held for sale by approximately RMB69,364,000 (2010: RMB40,611,000). In addition, it is estimated that a general increase/decrease of 100 basis points in bank deposit interest rates for foreign currency deposits other than RMB, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB13,246,000 (2010: RMB8,065,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2010.

(d) Foreign currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through PBOC or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All the revenue-generating operations of the Group are transacted in RMB. The Group is exposed to foreign currency risk on financing transactions denominated in currencies other than RMB and HKD. Depreciation or appreciation of the RMB and HKD against foreign currencies can affect the Group's results. The Group did not hedge its currency exposure.

27 Financial risk management and fair values (continued)**(d) Foreign currency risk (continued)**

Included in cash and cash equivalents and bank loans in the consolidated balance sheet and the Company's balance sheet as at 31 December 2011 and 2010, the amounts denominated in currencies other than the functional currency of the entities to which they relate were as follows:

	The Group		The Company	
	2011 '000	2010 '000	2011 '000	2010 '000
United States Dollars ("USD")				
– Cash and cash equivalents	211,062	123,775	149,651	58,586
– Bank loans	(561,000)	(511,000)	(230,000)	–

5% increase or decrease in USD exchange rate against RMB, assuming such change had occurred as at 31 December 2011, would not have a significant impact on the Group's results of operation and financial position.

(e) Fair values

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010.

The method and major assumptions used in estimating the fair value of the share options granted to employees of the Group are set out in Note 26. The unit fair value of the Awarded Shares are share price at grant dates which can be obtained from the stock market directly.

Forward exchange contracts are either market to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

28 Commitments and contingent liabilities

(a) Commitments

- (i) Commitments in respect of properties under development, investment properties and purchase of properties outstanding at 31 December not provided for in the financial statements were as follows:

	The Group	
	2011 RMB'000	2010 RMB'000
Contracted for	4,546,727	4,819,135
Authorised but not contracted for	7,228,262	5,496,593
	11,774,989	10,315,728

- (ii) Commitments in respect of equity investments outstanding at 31 December not provided for in the financial statements were as follows:

	The Group	
	2011 RMB'000	2010 RMB'000
Contracted for	3,756,152	–
Authorised but not contracted for	500,000	–
	4,256,152	–

(b) Guarantees

The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of property units. The Group has given guarantees on mortgage loans provided to the buyers by these banks. For most mortgages, the guarantees will be released when the property title deeds are pledged to banks as security for the respective mortgage loans, which generally take place within one year after the property units are delivered to the buyers. The total amount of mortgages outstanding which are guaranteed by the Company's subsidiaries was RMB4,776,176,000 as at 31 December 2011 (2010: RMB6,587,052,000).

As at 31 December 2011, the Company provided guarantees to two (2010: one) subsidiaries with respect to their bank loans of RMB1,689,957,000 (2010: RMB1,523,222,000).

28 Commitments and contingent liabilities (continued)**(c) Warranty against defects of properties**

Properties purchased by buyers are provided with various warranties of term between one to five years against certain defects as stipulated in the PRC laws and regulations which are covered by back-to-back warranties provided by the relevant contractors of the projects.

(d) Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the normal course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the directors believe that any resulting liabilities will not have a material adverse effect on the financial position, liquidity, or operating results of the Group.

(e) Investment properties and properties held for sale

The Group leases out investment properties and certain properties held for sale under operating leases. The leases typically run for an initial period of 1 to 8 years, with an option to renew the lease after that date at which time all terms are renegotiated.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2011 RMB'000	2010 RMB'000
Within 1 year	160,708	117,457
After 1 year but within 5 years	329,605	261,243
After 5 years	5,796	2,099
	496,109	380,799

29 Material related party transactions

(a) Amounts due to related parties, and corresponding transactions

Amounts due to related parties, included in current liabilities, comprise:

	Note	2011 RMB'000	2010 RMB'000
Shanghai Yi Dian	(i)	151,254	151,254
Shanghai Rural Commercial Bank	(i)	151,254	151,254
Mr. Pan Shiyi	(ii)	24,800	48,120
		327,308	350,628

(i) The balances as at 31 December 2011 and 2010 mainly represented the advances of RMB302,508,000 from Shanghai Yi Dian Holdings (Group) Co., Ltd. ("Shanghai Yi Dian") and Shanghai Rural Commercial Bank, the non-controlling equity holders of Shanghai Ding Ding Real Estate Development Co., Ltd. which were incurred before the acquisition by the Group. The advances were interest-free, unsecured and had no fix term of repayment.

(ii) The balance as at 31 December 2010 represented the dividend payable to Mr. Pan Shiyi, the non-controlling shareholder of Beijing Shanshi Real Estate Co., Ltd. ("Beijing Shanshi") and Beijing SOHO Real Estate Co., Ltd. ("Beijing SOHO") which was declared by Beijing Shanshi of RMB23,320,000 in September 2010 and Beijing SOHO of RMB24,800,000 in December 2010, respectively.

During the year ended 31 December 2011, Beijing Shanshi paid the dividend payable to Mr. Pan Shiyi, and the balance as at 31 December 2011 represented the dividend payable to Mr. Pan Shiyi which was declared by Beijing SOHO in December 2010.

29 Material related party transactions (continued)**(b) Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 6 and certain of the highest paid employees as disclosed in Note 7 is as follows:

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	35,591	32,321
Post-employment benefits	115	112
Share-based payments	1,360	520
	37,066	32,953

Total remuneration is included in "Staff costs" (see Note 3(b)).

(c) Other related party transactions

- (i) Beijing Redstone Industry Co., Ltd. ("Redstone Industry"), a company controlled by Mr. Pan Shiyi, entered into agreements with certain banks in 1998 and 1999 with respect to guarantees for mortgage loans provided to certain buyers of the Group's properties. Redstone Industry provided guarantees amounting to RMB10,831,000 for these buyers as at 31 December 2011 (2010: RMB21,831,000). The guarantee period generally ranged from 2 to 17 years.
- (ii) Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita entered into guarantee agreements with a bank with respect to the long-term bank loans amounted to RMB1,683,657,000 as at 31 December 2011 (2010: RMB1,436,923,000) provided to the Group. The guarantees will be released upon the repayment of the bank loans.
- (iii) Tianjin Jingshi Investment Management & Consulting Co., Ltd. ("Tianjin Jingshi"), a company controlled by Mrs. Pan Zhang Xin Marita, and Beijing SOHO, a subsidiary of the Group, entered into two properties purchase contracts on 24 May 2011, pursuant to which Tianjin Jingshi agreed to purchase two units in Sanlitun SOHO project for a total consideration of RMB45,776,000, which were settled in December 2011.

30 Acquisition of subsidiaries

In 2011, the Group acquired further 31.5239% equity interests of Shanghai Hong Sheng, and the entire equity interests in Shanghai Hanggang and the entire equity interests in Shanghai Xusheng, being the project companies for SOHO Fuxing Plaza project, SOHO Hailun Plaza project and Hongkou SOHO project, respectively (see Note 12).

The assets acquired and liabilities assumed did not constitute a business as defined in HKFRS 3 and, therefore, these acquisitions have been accounted for as assets acquisition. The acquisitions had the following effect on the Group's assets and liabilities on the acquisition dates:

	Note	RMB'000
Investment properties	10	2,718,795
Property and equipment	11	608
Interests in jointly controlled entity	13	(1,211,900)
Deferred tax assets	14(b)(i)	1,233
Properties under development and completed properties held for sale		3,989,984
Trade and other receivables		1,064
Cash and cash equivalents		564,305
Trade and other payables		(3,158,152)
Bank loans		(1,100,000)
Non-controlling interests		(161,309)
Net assets and liabilities		1,644,628
Cash consideration		1,644,628
Cash acquired		(564,305)
Net cash outflow		1,080,323

31 Critical accounting judgements in applying the Group's accounting policies

Estimates and judgements used in preparing the accounts are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities mainly include those related to property development activities.

(a) Land appreciation taxes

PRC land appreciation tax is levied 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 sales charges, borrowing costs and all property development expenditures.

The Group is subject to land appreciation taxes in the PRC which has been included in income tax of the Group. However, the Group has not finalised its land appreciation tax returns with the tax authorities for certain property development projects of the Group. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

(b) Provision for properties under development and completed properties held for sale

As explained in Note 1(j), the Group's properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion in case for properties under development, and the costs to be incurred in selling the properties based on prevailing market conditions.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in provision for properties under development and completed properties held for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

31 Critical accounting judgements in applying the Group's accounting policies
(continued)

(b) Provision for properties under development and completed properties held for sale
(continued)

In addition, given the volatility of the PRC property market and the unique nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than estimated at the balance sheet date. Any increase or decrease in the provision would affect profit or loss in future years.

(c) 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 profit or loss 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 typically divides 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 market value of each phase as a percentage of the total estimated market value of the entire project, or if the above is not practicable, the common costs are allocated to individual phases based on saleable area.

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.

(d) Impairment for property and equipment

If circumstances indicate that the net book value of a property or equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised to reduce the carrying amount to the recoverable amount in accordance with the accounting policy for impairment of property and equipment as described in Note 1(i) (ii). The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of future income and operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future income and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

31 Critical accounting judgements in applying the Group's accounting policies
(continued)

(e) Valuation of investment properties

As described in Note 10(a), investment properties are stated at fair value based on the valuation performed by an independent firm of professional valuers after taking into consideration the market evidence of transaction prices, and where appropriate, the rental income allowing for reversionary income potential.

In determining the fair value, the valuers have based on the market conditions existing at the balance sheet date or where appropriate, a method of valuation which involves, inter alia, certain estimates including market prices, current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, the management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(f) Impairment for trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the trade and other receivables balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(g) Financial assets at fair value through profit or loss

In determining the fair value of the financial assets at fair value through profit or loss, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
Amendments to HKFRS 7, Financial instruments: Disclosures – Transfer of financial assets	1 July 2011
Amendments to HKAS 12, Income taxes – Deferred tax: Recovery of underlying assets	1 January 2012
Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income	1 July 2012
HKFRS 10, Consolidated financial statements	1 January 2013
HKFRS 11, Joint arrangements	1 January 2013
HKFRS 12, Disclosure of interests in other entities	1 January 2013
HKFRS 13, Fair value measurement	1 January 2013
HKAS 27, Separate financial statements (2011)	1 January 2013
HKAS 28, Investments in associates and joint ventures	1 January 2013
Revised HKAS 19, Employee benefits	1 January 2013
HK(IFRIC) 20, Stripping costs in the production phase of a surface mine	1 January 2013
Amendments to HKFRS 7, Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
Amendments to HKAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9, Financial instruments (2009)	1 January 2015
HKFRS 9, Financial Instruments (2010)	1 January 2015
Amendments to HKFRS 9, Financial instruments and HKFRS 7, Financial instruments: Disclosures – Mandatory effective date and transition disclosures	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

33 Ultimate holding company

At 31 December 2011, the directors consider the ultimate holding company to be Capevale Limited, which is incorporated in the Cayman Islands. This entity does not produce financial statements available for public use.

34 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in the current year.

Independent Auditor's Report

Independent auditor's report to the shareholders of SOHO China Limited

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of SOHO China Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 3 to 70, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report *(continued)*

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's consolidated profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
2 March 2011

Consolidated income statement for the year ended 31 December 2010

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Turnover	3	18,215,091	7,413,451
Cost of properties sold		(8,958,349)	(3,556,393)
Gross profit		9,256,742	3,857,058
Valuation gains on investment property	11	165,000	2,144,461
Other operating revenue		207,438	115,065
Selling expenses		(547,437)	(262,084)
Administrative expenses		(204,776)	(184,801)
Other operating expenses		(153,132)	(121,857)
Profit from operations		8,723,835	5,547,842
Financial income	4(a)	224,394	233,693
Financial expenses	4(a)	(292,351)	(146,620)
Government grants	5	44,190	23,795
Profit before taxation	4	8,700,068	5,658,710
Income tax	6(a)	(4,928,485)	(2,264,020)
Profit for the year		3,771,583	3,394,690
Attributable to:			
Equity shareholders of the Company		3,636,156	3,300,178
Non-controlling interests		135,427	94,512
Profit for the year		3,771,583	3,394,690
Earnings per share (RMB)	10		
Basic		0.701	0.636
Diluted		0.673	0.625

The notes on pages 11 to 70 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 22(b).

Consolidated statement of comprehensive income for the year ended 31 December 2010

(Expressed in Renminbi)

	<i>Note</i>	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Profit for the year		3,771,583	3,394,690
Other comprehensive income for the year (after tax and reclassification adjustments):			
Exchange differences on translation of financial statements of foreign operations	<i>22(d)(iii)</i>	41,556	(58,902)
Total comprehensive income for the year		3,813,139	3,335,788
Attributable to:			
Equity shareholders of the Company		3,677,712	3,241,276
Non-controlling interests		135,427	94,512
Total comprehensive income for the year		3,813,139	3,335,788

The notes on pages 11 to 70 form part of these financial statements.

Consolidated balance sheet at 31 December 2010

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Fixed assets	11		
– Investment property		3,085,000	2,920,000
– Other property and equipment		554,161	672,211
		3,639,161	3,592,211
Bank deposits	17	3,840,915	1,277,691
Interest in jointly controlled entity	13	1,211,900	–
Deferred tax assets	14(b)	1,019,420	557,761
Total non-current assets		9,711,396	5,427,663
Current assets			
Properties under development and completed properties held for sale	15	18,697,483	21,520,795
Trade and other receivables	16	1,796,632	1,565,984
Cash and cash equivalents	18	17,724,921	9,241,879
Total current assets		38,219,036	32,328,658
Current liabilities			
Bank loans	19	2,580,744	550,000
Trade and other payables	20	9,306,445	7,708,176
Taxation	14(a)	6,966,710	3,700,397
Total current liabilities		18,853,899	11,958,573
Net current assets		19,365,137	20,370,085
Total assets less current liabilities		29,076,533	25,797,748

The notes on pages 11 to 70 form part of these financial statements.

Consolidated balance sheet at 31 December 2010 (continued)

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Bank loans	19	6,052,171	5,769,660
Convertible bonds	21	1,984,828	1,958,783
Contract retention payables		273,732	22,241
Deferred tax liabilities	14(b)	786,434	604,537
Total non-current liabilities		9,097,165	8,355,221
NET ASSETS			
		19,979,368	17,442,527
CAPITAL AND RESERVES			
	22		
Share capital		107,485	107,485
Reserves		19,135,247	17,116,130
Total equity attributable to equity shareholders of the Company		19,242,732	17,223,615
Non-controlling interests		736,636	218,912
TOTAL EQUITY		19,979,368	17,442,527

Approved and authorised for issue by the board of directors on 2 March 2011.

Directors
Pan Shiyi Pan Zhang Xin Marita

The notes on pages 11 to 70 form part of these financial statements.

Balance sheet at 31 December 2010

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	12	294,423	294,423
Current assets			
Properties under development and completed properties held for sale		31,662	80,265
Trade and other receivables	16	14,542,590	13,499,024
Cash and cash equivalents	18	457,312	1,062,772
Total current assets		15,031,564	14,642,061
Current liabilities			
Bank loans	19	680,744	–
Other payables		64,005	24,261
Amounts due to subsidiaries		1,032,489	683,982
Total current liabilities		1,777,238	708,243
Net current assets		13,254,326	13,933,818
Total assets less current liabilities		13,548,749	14,228,241
Non-current liabilities			
Convertible bonds	21	1,984,828	1,958,783
NET ASSETS		11,563,921	12,269,458
CAPITAL AND RESERVES			
Share capital	22	107,485	107,485
Reserves		11,456,436	12,161,973
TOTAL EQUITY		11,563,921	12,269,458

Approved and authorised for issue by the board of directors on 2 March 2011.

Directors
Pan Shiyi Pan Zhang Xin Marita

The notes on pages 11 to 70 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2010

(Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company											
		Share capital	Share premium	Capital redemption reserve	Treasury shares	Capital reserve	Exchange reserve	Revaluation reserve	General reserve fund	Retained profits	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009		107,485	11,424,236	867	-	35,891	(606,291)	216,232	259,043	2,550,579	13,988,042	136,845	14,124,887
Profit for the year		-	-	-	-	-	-	-	-	3,300,178	3,300,178	94,512	3,394,690
Other comprehensive income		-	-	-	-	-	(58,902)	-	-	-	(58,902)	-	(58,902)
Total comprehensive income		-	-	-	-	-	(58,902)	-	-	3,300,178	3,241,276	94,512	3,335,788
Treasury shares	22(c)(i)	-	-	-	(8,775)	-	-	-	-	-	(8,775)	-	(8,775)
Equity component of the													
Convertible Bonds	21	-	-	-	-	514,395	-	-	-	-	514,395	-	514,395
Dividends approved in respect of													
the previous year	22(b)	-	-	-	-	-	-	-	-	(518,766)	(518,766)	-	(518,766)
Equity settled share-based transactions	24	-	-	-	-	9,648	-	-	-	-	9,648	-	9,648
Transfer to general reserve fund	22(d)(iv)	-	-	-	-	-	-	-	136,638	(136,638)	-	-	-
Acquisition of non-controlling interests	22(f)	-	-	-	-	-	-	-	-	(2,205)	(2,205)	-	(2,205)
Distributions to non-controlling interests		-	-	-	-	-	-	-	-	-	-	(12,445)	(12,445)
At 31 December 2009		107,485	11,424,236	867	(8,775)	559,934	(665,193)	216,232	395,681	5,193,148	17,223,615	218,912	17,442,527
At 1 January 2010		107,485	11,424,236	867	(8,775)	559,934	(665,193)	216,232	395,681	5,193,148	17,223,615	218,912	17,442,527
Profit for the year		-	-	-	-	-	-	-	-	3,636,156	3,636,156	135,427	3,771,583
Other comprehensive income		-	-	-	-	-	41,556	-	-	-	41,556	-	41,556
Total comprehensive income		-	-	-	-	-	41,556	-	-	3,636,156	3,677,712	135,427	3,813,139
Dividends approved in respect of													
the previous year	22(b)	-	-	-	-	-	-	-	-	(1,660,050)	(1,660,050)	-	(1,660,050)
Equity settled share-based transactions	24	-	-	-	-	1,455	-	-	-	-	1,455	-	1,455
Transfer to general reserve fund	22(d)(iv)	-	-	-	-	-	-	-	6,706	(6,706)	-	-	-
Acquisition of subsidiaries	28	-	-	-	-	-	-	-	-	-	-	409,149	409,149
Capital contributions													
from non-controlling interests		-	-	-	-	-	-	-	-	-	-	35,270	35,270
Distributions to non-controlling interests		-	-	-	-	-	-	-	-	-	-	(62,122)	(62,122)
At 31 December 2010		107,485	11,424,236	867	(8,775)	561,389	(623,637)	216,232	402,387	7,162,548	19,242,732	736,636	19,979,368

The notes on pages 11 to 70 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2010

(Expressed in Renminbi)

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit before taxation	8,700,068	5,658,710
Adjustments for:		
Valuation gains on investment property	(165,000)	(2,144,461)
Depreciation	18,302	24,010
Financial income	(224,394)	(233,693)
Interest expense	265,914	137,120
Loss on sale of other property and equipment	241	16
Equity-settled share-based payment expense	1,455	9,648
Changes in working capital:		
Increase in trade and other receivables	(181,848)	(385,148)
Decrease/(increase) in properties under development and completed properties held for sale	6,173,839	(2,733,483)
Increase in trade and other payables	485,015	3,464,945
Cash generated from operation	15,073,592	3,797,664
Interest received	153,707	150,878
Interest paid	(509,669)	(322,585)
Income tax paid	(1,927,683)	(647,728)
Net cash generated from operating activities	12,789,947	2,978,229

The notes on pages 11 to 70 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2010 (continued)

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Cash flows from investing activities			
Payment for purchase of fixed assets		(58,861)	(1,352,793)
Proceeds from sale of other property and equipment		269	87
Increase in term deposits with banks and other financial institutions over 3 months		(1,571,313)	(1,097,111)
Increase in bank deposits		(2,563,224)	(495,345)
Net cash outflow arising from the acquisition of subsidiaries		(1,521,935)	(4,768,003)
Payment for acquisition of interest in jointly controlled entity		(961,900)	-
Payment for purchase of derivative financial instruments		-	(22,138)
Proceeds from settlement of derivative financial instruments		-	84,344
New advances to related parties		-	(10,333)
Repayments from related parties		-	42,246
Net cash used in investing activities		(6,676,964)	(7,619,046)
Cash flows from financing activities			
Proceeds from bank loans		5,802,703	2,153,972
Repayment of bank loans		(3,489,448)	(1,117,550)
Dividends paid to equity shareholders of the Company		(1,660,050)	(518,766)
Proceeds from issue of the Convertible Bonds		-	2,467,864
Payment of transaction costs on issue of the Convertible Bonds		-	(38,510)
Payment for purchase of treasury shares	22(c)(i)	-	(8,775)
Repayment of advances from a third party		-	(36,401)
Capital contribution from non-controlling interests		35,270	-
Acquisition of non-controlling interests	22(f)	-	(2,205)
Distributions to non-controlling interests		(1,972)	(12,445)
Net cash generated from financing activities		686,503	2,887,184
Net increase/(decrease) in cash and cash equivalents		6,799,486	(1,753,633)
Cash and cash equivalents at 1 January		7,122,768	8,886,804
Effect of foreign exchange rate changes		112,243	(10,403)
Cash and cash equivalents at 31 December	18	14,034,497	7,122,768

The notes on pages 11 to 70 form part of these financial statements.

Notes to the financial statements

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a jointly controlled entity.

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the subsidiaries carrying out the principal activities of the Group. The consolidated financial statements are prepared on the historical cost basis, except for investment property (see Note 1(f)), office premises (see Note 1(g)), derivative financial instruments (see Note 1(e)) and convertible bonds (see Note 1(k)), which are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 29.

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statements and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Notes 1(k), (l) or (m) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see Note 1(d)).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(h)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant accounting policies (continued)

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 1(h)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 1(d)).

In the Company's balance sheet, investments in associates and jointly controlled entities are stated at cost less impairment losses (see Note 1(h)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(f) Investment property

Investment properties are land and/or buildings which are owned to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the balance sheet at fair value, unless they are still in the course of construction or development at the balance sheet date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in Note 1(r)(ii).

(g) Other property and equipment

Office premises are stated at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Serviced apartment properties, that are owner-occupied properties from which the Group earns apartment service income, and other items of equipment are stated at cost less accumulated depreciation and impairment losses (see Note 1(h)).

Changes arising on the revaluation of office premises are generally dealt with in other comprehensive income and are accumulated separately in equity in the revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

1 Significant accounting policies (continued)

(g) Other property and equipment (continued)

Cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure incurred after the asset has been placed into operations is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are charged to profit or loss in the period incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Office premises and serviced apartment properties situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.
- Office equipment 5 years
- Motor vehicles 8 years

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Impairment of assets

(i) Impairment of investments in debt and equity securities and receivables

Investments in debt and equity securities (other than investments in subsidiaries: see Note 1(h)(ii)) and current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment 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 becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

(h) Impairment of assets *(continued)*

(i) Impairment of investments in debt and equity securities and receivables *(continued)*

- 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.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associate and jointly controlled entities recognised using the equity method (see Note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 1(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 1(h)(ii).
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property and equipment (other than office premises carried at revalued amounts) and investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)) may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 1(h)(i) and (ii)).

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

(i) Properties under development and completed properties held for sale

Properties under development and completed properties held for sale in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

- Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see Note 1(t)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

- Completed property held for resale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the properties to their present location and condition.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see Note 1(h)).

(k) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

1 Significant accounting policies (continued)

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(q)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contributions retirement scheme as required under relevant People's Republic of China (the "PRC") laws and regulations are charged to profit or loss when incurred.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

(o) Employee benefits (continued)

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 Significant accounting policies (continued)

(p) Income tax (continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(q)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

(q) Financial guarantees issued, provisions and contingent liabilities *(continued)*

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 1(q)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 1(q)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of properties

Revenue arising from the sale of properties held for sale is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers. Revenue from sales of properties excludes business tax and is after deduction of any trade discounts. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet as sales deposits.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Rental income from operating leases excludes business tax. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1 Significant accounting policies (continued)

(r) Revenue recognition (continued)

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Dividend

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

(v) Commission income

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(vi) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Operating lease payments

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

1 Significant accounting policies (continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Changes in accounting policies

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, amendments to HKAS 27, Consolidated and separate financial statements and HK(IFRIC) 17, Distributions of non-cash assets to owners are relevant to the Group's financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to HKAS 27 in respect of acquisition of an additional interest and disposal of part of the Group's interest in a subsidiary but still retains control, which are accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners, have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the amendments to HKAS 27 (in respect of allocation of losses to non-controlling interests in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such losses arose in the current period.
- The impact of the HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction and there is no requirement to restate the amounts recorded in respect of previous such transactions.

Further details of these changes in accounting policy are as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.
- HK(IFRIC) 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. Previously the Group would have measured such distributions at the carrying value of the assets distributed. In accordance with the transitional provisions in HK(IFRIC) 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

Notes to the financial statements *(continued)*

3 Turnover and segment reporting

(a) Turnover

The principal activities of the Group are property development and property investments. Turnover represents revenue from the sale of property units and rental income from investment property, net of business tax, analysed as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Sale of property units	18,105,453	7,342,132
Rental income from investment property	109,638	71,319
	18,215,091	7,413,451

(b) Segment reporting

The Group manages its businesses based on development status of current projects, which are divided into completed projects held for sale, projects under development and investment property. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

(i) Completed projects held for sale

This segment includes projects which have been completed and the Group has obtained completion certificates for those projects.

(ii) Projects under development

This segment includes projects which are under development.

(iii) Investment property

This segment includes one project which has been completed and is held to earn rental income.

(c) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets and liabilities include all non-current assets and liabilities and current assets and liabilities with the exception of unallocated head office and corporate assets and liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. Head office and corporate expenses are not allocated to individual segments.

Segment profit represents the profit after taxation generated by individual segments.

3 Turnover and segment reporting (continued)

(c) Segment results, assets and liabilities (continued)

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Management is provided with segment information concerning turnover, cost of properties sold, gross profit, valuation gain on investment property, net operating expenses, financial income, financial expenses, government grants, income tax, investment property, properties under development and completed properties held for sale, cash and cash equivalents, bank deposits in non-current assets, bank loans, and capital expenditure on fixed assets.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for purposes of resources allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below:

	Completed projects held for sale		Projects under development		Investment property		Total	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Income statement items								
Reportable segment revenue	18,105,453	7,342,132	-	-	109,638	71,319	18,215,091	7,413,451
Cost of properties sold	(8,958,349)	(3,556,393)	-	-	-	-	(8,958,349)	(3,556,393)
Reportable segment gross profit	9,147,104	3,785,739	-	-	109,638	71,319	9,256,742	3,857,058
Valuation gain on investment property	-	-	-	-	165,000	2,144,461	165,000	2,144,461
Operating income/(expenses), net	(537,016)	(229,073)	31,818	(73,855)	(12,524)	(4,603)	(517,722)	(307,531)
Financial income	110,226	35,188	40,304	95,880	439	823	150,969	131,891
Financial expenses	(89,901)	(81,550)	(1,121)	(12,092)	(35,021)	(6,215)	(126,043)	(99,857)
Government grants	43,584	23,795	-	-	606	-	44,190	23,795
Reportable segment profit before taxation	8,673,997	3,534,099	71,001	9,933	228,138	2,205,785	8,973,136	5,749,817
Income tax	(4,607,237)	(1,704,167)	(27,277)	(23,739)	(58,337)	(551,446)	(4,692,851)	(2,279,352)
Reportable segment profit/(loss)	4,066,760	1,829,932	43,724	(13,806)	169,801	1,654,339	4,280,285	3,470,465
Balance sheet items								
Investment property	-	-	-	-	3,085,000	2,920,000	3,085,000	2,920,000
Properties under development and completed properties held for sale	4,310,400	6,476,512	14,551,698	15,191,228	-	-	18,862,098	21,667,740
Cash and cash equivalents	9,133,533	2,233,776	7,628,566	5,398,684	126,202	10,537	16,888,301	7,642,997
Bank deposits in non-current assets	3,475,864	643,386	365,051	634,305	-	-	3,840,915	1,277,691
Bank loans	1,800,000	550,000	1,900,000	4,200,000	925,000	-	4,625,000	4,750,000
Reportable segment assets (including investment in joint ventures)	27,924,091	15,335,019	31,922,348	26,656,148	4,140,916	3,606,364	63,987,355	45,597,531
Reportable segment liabilities	24,522,362	12,365,241	15,462,439	14,590,533	2,266,774	1,902,023	42,251,575	28,857,797
Capital expenditure on fixed assets	6,106	3,523	50	1,996	-	775,539	6,156	781,058

Notes to the financial statements (continued)

3 Turnover and segment reporting (continued)

(d) Reconciliations of reportable segment profit or loss, assets and liabilities

	2010 RMB'000	2009 RMB'000
Profit		
Reportable segment profit	4,280,285	3,470,465
Elimination of intra-group profit	(31,809)	(45,993)
Unallocated head office and corporate expenses	(476,893)	(29,782)
Consolidated profit	3,771,583	3,394,690
Properties under development and completed properties held for sale		
Reportable segment properties under development and completed properties held for sale	18,862,098	21,667,740
Elimination of intra-group transactions	(164,615)	(146,945)
Consolidated properties under development and completed properties held for sale	18,697,483	21,520,795
Cash and cash equivalents		
Reportable segment cash and cash equivalents	16,888,301	7,642,997
Unallocated head office and corporate cash and cash equivalents	836,620	1,598,882
Consolidated cash and cash equivalents	17,724,921	9,241,879

3 Turnover and segment reporting (continued)

(d) Reconciliations of reportable segment profit or loss, assets and liabilities (continued)

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Bank loans		
Reportable segment bank loans	4,625,000	4,750,000
Unallocated head office and corporate bank loans	4,007,915	1,569,660
Consolidated bank loans	8,632,915	6,319,660
Assets		
Reportable segment assets	63,987,355	45,597,531
Elimination of intra-group balances	(21,019,059)	(12,293,596)
Unallocated head office and corporate assets	4,962,136	4,452,386
Consolidated total assets	47,930,432	37,756,321
Liabilities		
Reportable segment liabilities	42,251,575	28,857,797
Elimination of intra-group balances	(20,915,600)	(12,194,619)
Unallocated head office and corporate liabilities	6,615,089	3,650,616
Consolidated total liabilities	27,951,064	20,313,794

Notes to the financial statements (continued)

4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Financial income and financial expenses

	2010 RMB'000	2009 RMB'000
Financial income		
Interest income	(153,707)	(150,878)
Net foreign exchange gain	(70,687)	(48,499)
Net gain on derivative financial instruments	–	(34,316)
	(224,394)	(233,693)
Financial expenses		
Interest on bank loans wholly repayable within five years	356,363	248,993
Interest on bank loans wholly repayable above five years	34,134	–
Interest expenses on the Convertible Bonds	185,511	89,619
Less: Interest expense capitalised into properties under development*	(310,094)	(201,492)
	265,914	137,120
Bank charges and others	26,437	9,500
	292,351	146,620

* The borrowing costs were capitalised at a rate of 5.16% – 8.05% per annum (2009: 5.16% – 7.56%).

(b) Staff costs

	Note	2010 RMB'000	2009 RMB'000
Salaries, wages and other benefits		178,122	145,289
Contributions to defined contribution retirement plan		10,852	8,701
Equity-settled share-based payment expenses	24	1,455	9,648
		190,429	163,638

4 Profit before taxation (continued)

(c) Other items

	2010 RMB'000	2009 RMB'000
Depreciation	18,302	24,010
Auditors' remuneration		
– audit services	6,937	7,743
– tax services	2,029	1,701
– other services	1,260	1,406
Operating lease charges in respect of properties	5,747	1,658
Rentals receivable from investment properties less direct outgoings of RMB nil (2009: RMB nil)	109,638	71,319

5 Government grants

The Group received total government grants of RMB44,190,000 (2009: RMB23,795,000) in relation to certain completed projects from the Finance Bureau of Huairou County of Beijing, the Finance Bureau of Chongwen District of Beijing and the Finance Bureau of Dongcheng District of Beijing pursuant to the local regulations issued by the respective local governments.

6 Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	Note	2010 RMB'000	2009 RMB'000
PRC Corporate Income Tax			
– Provision for the year		2,143,577	1,022,324
– Under-provision in respect of prior years		24,231	30,785
Land Appreciation Tax		3,025,314	1,081,909
Deferred tax	14(b)	(264,637)	129,002
		4,928,485	2,264,020

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Company and the Company's subsidiaries registered in the BVI are not subject to any income tax.
- (ii) In accordance with the Corporate Income Tax Law of the People's Republic of China, the income tax rate applicable to the Company's subsidiaries in the PRC is ranged from 22% to 25% (2009: 20% to 25%).
- (iii) In accordance with the Land Appreciation Tax Law of the PRC, Land Appreciation Tax is levied at the properties developed by the Group for sale in the PRC. Land Appreciation Tax is charged on the appreciated amount at progressive rates ranged from 30% to 60%.

Notes to the financial statements (continued)

6 Income tax in the consolidated income statement (continued)

(a) Income tax in the consolidated income statement represents: (continued)

- (iv) According to the Implementation Rules of the Corporate Income Tax Law of the People's Republic of China, the Company's subsidiaries in the PRC are levied a 10% withholding tax on dividends declared to their foreign investment holding companies arising from profit earned subsequent to 1 January 2008. In respect of dividends that are subject to the withholding tax, provision for withholding tax is recognised for the dividends that have been declared, and deferred tax liability is recognised for those to be declared in the foreseeable future.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010 RMB'000	2009 RMB'000
Profit before taxation	8,700,068	5,658,710
Income tax computed by applying the tax rate of 25% (2009: 25%) to profit before taxation	2,175,017	1,414,678
Tax effect of Land Appreciation Tax deductible for PRC Corporate Income Tax	(756,329)	(270,477)
Effect of withholding tax at 10% on the profits of the Group's PRC subsidiaries (Note 6(a)(iv))	206,371	-
Effect of differential tax rate on loss/(profit)	48,861	(34,944)
Tax effect of unused tax losses not recognised	(6,694)	3,787
Under-provision in prior years	24,231	30,785
Tax effect of non-deductible expenses	211,714	38,282
Provision for Land Appreciation Tax for the year	3,025,314	1,081,909
Actual tax expense	4,928,485	2,264,020

7 Directors' remuneration

Details of directors' remuneration are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (Note 7(i)) RMB'000	Total RMB'000
2010						
Chairman						
Pan Shiyi	240	5,688	29	5,957	-	5,957
Executive directors						
Pan Zhang Xin Marita	240	5,145	-	5,385	-	5,385
Yan Yan	240	5,009	29	5,278	164	5,442
Wang Shaojian Sean (resigned on 31 May 2010)	100	2,274	-	2,374	61	2,435
Tong Ching Mau (appointed on 24 December 2010)	-	70	-	70	41	111
Independent non-executive directors						
Ramin Khadem	298	-	-	298	-	298
Cha Mou Zing Victor	255	-	-	255	-	255
Yi Xiqun	255	-	-	255	-	255
	1,628	18,186	58	19,872	266	20,138

Notes to the financial statements (continued)

7 Directors' remuneration (continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (Note 7(i)) RMB'000	Total RMB'000
2009						
Chairman						
Pan Shiyi	240	5,191	37	5,468	–	5,468
Executive directors						
Pan Zhang Xin Marita	240	4,613	–	4,853	–	4,853
Yan Yan	240	4,647	37	4,924	1,044	5,968
Su Xin (resigned on 30 September 2009)	180	3,092	27	3,299	726	4,025
Wang Shaojian Sean	240	4,611	–	4,851	217	5,068
Independent non-executive directors						
Ramin Khadem	308	–	–	308	–	308
Cha Mou Zing Victor	220	–	–	220	–	220
Yi Xiqun	220	–	–	220	–	220
	1,888	22,154	101	24,143	1,987	26,130

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors of the Company waived or agreed to waive any remuneration during the year.

Note:

- (i) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 1(o)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in Note 24.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2009: four) are directors whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other two (2009: one) individuals are as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Salaries and other emoluments	7,502	3,497
Retirement scheme contributions	29	37
Share-based payments	127	822
	7,658	4,356

The emoluments of the two (2009: one) individuals with the highest emoluments are within the following bands:

<i>RMB</i>	2010 <i>Number of individuals</i>	2009 <i>Number of individuals</i>
3,500,001-4,000,000	2	–
4,000,001-4,500,000	–	1

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB171,078,000 (2009: RMB68,355,000) which has been dealt with in the financial statements of the Company.

Notes to the financial statements (continued)

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB3,636,156,000 (2009: RMB3,300,178,000) and the weighted average of 5,185,447,000 ordinary shares (2009: 5,187,003,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Note	2010 '000	2009 '000
Issued ordinary shares at 1 January		5,187,657	5,187,657
Effect of treasury shares	22(c)(i)	(2,210)	(654)
Weighted average number of ordinary shares at 31 December		5,185,447	5,187,003

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB3,821,667,000 (2009: RMB3,389,797,000) and the weighted average number of ordinary shares of 5,675,558,000 shares (2009: 5,424,446,000), calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2010 RMB'000	2009 RMB'000
Profit attributable to ordinary equity shareholders	3,636,156	3,300,178
After tax effect of effective interest on the liability component of the Convertible Bonds	185,511	89,619
Profit attributable to ordinary equity shareholders (diluted)	3,821,667	3,389,797

(ii) Weighted average number of ordinary shares (diluted)

	2010 '000	2009 '000
Weighted average number of ordinary shares at 31 December	5,185,447	5,187,003
Effect of conversion of the Convertible Bonds	489,724	237,443
Effect of exercise of the share options	387	–
Weighted average number of ordinary shares (diluted) at 31 December	5,675,558	5,424,446

The share options granted to the employees did not have dilutive effect as at 31 December 2009.

11 Fixed assets – the Group

	Office premises <i>RMB'000</i>	Serviced apartment properties <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Investment property <i>RMB'000</i>	Total <i>RMB'000</i>
Cost or valuation:							
At 1 January 2009	288,534	465,312	30,332	5,824	790,002	–	790,002
Additions	–	786	3,273	1,460	5,519	775,539	781,058
Transfer to properties under development and completed properties held for sale	–	(11,081)	–	–	(11,081)	–	(11,081)
Acquisition of subsidiaries	–	–	91	–	91	–	91
Disposals	–	–	(109)	(192)	(301)	–	(301)
Fair value adjustment	–	–	–	–	–	2,144,461	2,144,461
At 31 December 2009	288,534	455,017	33,587	7,092	784,230	2,920,000	3,704,230
Representing:							
Cost	–	455,017	33,587	7,092	495,696	–	495,696
Valuation – 2009	–	–	–	–	–	2,920,000	2,920,000
Valuation – 2008	288,534	–	–	–	288,534	–	288,534
	288,534	455,017	33,587	7,092	784,230	2,920,000	3,704,230
At 1 January 2010	288,534	455,017	33,587	7,092	784,230	2,920,000	3,704,230
Additions	–	–	6,152	4	6,156	–	6,156
Transfer to properties under development and completed properties held for sale	–	(129,351)	–	–	(129,351)	–	(129,351)
Acquisition of a subsidiary (Note 28)	–	–	247	2,052	2,299	–	2,299
Disposals	–	–	(99)	(2,574)	(2,673)	–	(2,673)
Fair value adjustment	–	–	–	–	–	165,000	165,000
At 31 December 2010	288,534	325,666	39,887	6,574	660,661	3,085,000	3,745,661
Representing:							
Cost	–	325,666	39,887	6,574	372,127	–	372,127
Valuation – 2010	–	–	–	–	–	3,085,000	3,085,000
Valuation – 2008	288,534	–	–	–	288,534	–	288,534
	288,534	325,666	39,887	6,574	660,661	3,085,000	3,745,661

Notes to the financial statements (continued)

11 Fixed assets – the Group (continued)

	Office premises RMB'000	Serviced apartment properties RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Sub-total RMB'000	Investment property RMB'000	Total RMB'000
Accumulated depreciation:							
At 1 January 2009	7,512	62,915	17,032	1,822	89,281	–	89,281
Charge for the year	6,845	11,423	4,403	1,339	24,010	–	24,010
Written back on transfer to properties under development and completed properties held for sale	–	(1,142)	–	–	(1,142)	–	(1,142)
Acquisition of subsidiaries	–	–	68	–	68	–	68
Written back on disposals	–	–	(15)	(183)	(198)	–	(198)
At 31 December 2009	14,357	73,196	21,488	2,978	112,019	–	112,019
At 1 January 2010	14,357	73,196	21,488	2,978	112,019	–	112,019
Charge for the year	6,845	6,964	3,477	1,016	18,302	–	18,302
Written back on transfer to properties under development and completed properties held for sale	–	(23,635)	–	–	(23,635)	–	(23,635)
Acquisition of a subsidiary (Note 28)	–	–	192	1,785	1,977	–	1,977
Written back on disposals	–	–	(49)	(2,114)	(2,163)	–	(2,163)
At 31 December 2010	21,202	56,525	25,108	3,665	106,500	–	106,500
Net book value:							
At 31 December 2010	267,332	269,141	14,779	2,909	554,161	3,085,000	3,639,161
At 31 December 2009	274,177	381,821	12,099	4,114	672,211	2,920,000	3,592,211

(a) Revaluation of investment properties

All investment properties of the Group were revalued as at 31 December 2010 and 2009 on an open market value basis by making reference to comparable sales transaction as available in the relevant market, and where appropriate, taking into account of the valuation based on the income capitalization approach. The valuations were carried out by CB Richard Ellis Ltd., a firm of independent qualified valuers in Hong Kong with recent experience in the location and category of property being valued.

11 Fixed assets – the Group (continued)

(b) Revaluation of office premises

The Group's office premises were revalued as at 31 December 2008 by Tongxin Assets Appraisal Co., Ltd., a firm of independent qualified valuer with recent experience in the location and category of property being valued, in the PRC, at their open market value. As at 31 December 2008, the revaluation surplus of RMB4,880,000 has been recognised in other comprehensive income and accumulated in the revaluation reserve of the Group, net of deferred tax. The carrying amount of the office premises of the Group as at 31 December 2010 did not materially differ from their fair value.

The carrying amount of the office premises of the Group as at 31 December 2010 would have been RMB120,557,000 (2009: RMB123,640,000) had they been carried at cost less accumulated depreciation.

(c) The analysis of net book value of properties

The net book values of investment property, office premises and serviced apartment properties in aggregate of RMB3,621,473,000 as at 31 December 2010 (2009: RMB3,575,998,000) were under medium-term leases in the PRC.

(d) Certain portion of the Group's investment properties were pledged against the bank loans, details are set out in Note 19.

12 Investments in subsidiaries – the Company

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	294,423	294,423

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of Company	Place of establishment/ incorporation	Principal activities	Issued/ paid-in capital	Attributable equity interest	
				Direct	Indirect
Beijing ZhongHongTian Real Estate Co., Ltd. *	Beijing, the PRC	Development of SOHO Newtown project	USD15,000,000	–	54%
Beijing Redstone Newtown Real Estate Co., Ltd. *	Beijing, the PRC	Development of the Commune by the Great Wall project and operation of serviced apartment	USD10,000,000	–	95%
Hainan Redstone Industry Co., Ltd. *	Hainan, the PRC	Development of Boao Canal Village project	RMB20,000,000	–	98.1%
Beijing Redstone Jianwai Real Estate Development Co., Ltd. *	Beijing, the PRC	Development of Jianwai SOHO project	USD30,000,000	–	95%
SOHO China Leasing Co., Ltd. **	Beijing, the PRC	Property leasing and resale services	USD100,000	–	100%

Notes to the financial statements (continued)

12 Investments in subsidiaries – the Company (continued)

Name of Company	Place of establishment/ incorporation	Principal activities	Issued/ paid-in capital	Attributable equity interest	
				Direct	Indirect
Beijing SOHO Properties Management Co., Ltd. **	Beijing, the PRC	Provision of consulting services	USD8,000,000	–	100%
Beijing Shanshi Real Estate Co., Ltd. *	Beijing, the PRC	Development of Guanghualu SOHO project	USD38,700,000	–	95%
Beijing SOHO Real Estate Co., Ltd. *	Beijing, the PRC	Development of Sanlitun SOHO project	USD99,000,000	–	95%
Beijing Chaowai SOHO Real Estate Co., Ltd. *	Beijing, the PRC	Development of Chaowai SOHO project	USD20,000,000	90%	9.5%
Beijing Millennium Real Properties Development Co., Ltd. ***	Beijing, the PRC	Development of Beijing Residency project	RMB96,000,000	–	100%
Beijing Yeli Real Properties Development Co., Ltd. ***	Beijing, the PRC	Development of Guanghualu SOHO II project	RMB10,000,000	–	100%
Beijing Kaiheng Real Estate Co., Ltd. *	Beijing, the PRC	Development of Chaoyangmen SOHO project	USD12,000,000	–	100%
Beijing Suo Tu Shi Ji Investment Management Co., Ltd. ***	Beijing, the PRC	Development of ZhongGuanCun SOHO project	RMB10,000,000	–	100%
Beijing Zhanpeng Century Investment Management Co., Ltd. ***	Beijing, the PRC	Investment in Tiananmen South (Qianmen) project	RMB50,000,000	–	100%

12 Investments in subsidiaries – the Company (continued)

Name of Company	Place of establishment/ incorporation	Principal activities	Issued/ paid-in capital	Attributable equity interest	
				Direct	Indirect
SOHO Exchange Limited (formerly known as "MSREF Anderson")	Cayman Islands	Development of The Exchange-SOHO project	USD1,000	–	100%
Beijing Wangjing SOHO Real Estate Co., Ltd. *	Beijing, the PRC	Development of Wangjing SOHO project	USD99,000,000	–	100%
Beijing Bluewater Property Management Co., Ltd. **	Beijing, the PRC	Development of SOHO Nexus Centre project	USD120,000,000	–	100%
Shanghai Ding Ding Real Estate Development Co., Ltd. *	Shanghai, the PRC	Development of the Bund 204 Land project	USD135,000,000	–	61.506% Note (i)
SOHO (Shanghai) Investment Co., Ltd. ***	Shanghai, the PRC	Development of Hongqiao SOHO project	RMB200,000,000	–	100% Note (ii)

* The company is registered as a sino-foreign equity joint venture enterprise in the PRC.

** The company is registered as a wholly owned foreign enterprise in the PRC.

*** The company is registered as a limited liability company in the PRC.

(i) Shanghai Ding Ding Real Estate Development Co., Ltd. ("Shanghai Ding Ding")

On 28 June 2010, the Group acquired 90% of the equity interests of T&T International Investment Corporation ("T&T International"), which holds 68.34% of the equity interests in Shanghai Ding Ding, and consequently the Group indirectly acquired 61.506% of the equity interests in Shanghai Ding Ding. Shanghai Ding Ding is the project company holding the land use right of the Bund 204 Land located at the Bund, Shanghai, the PRC. The project has a planned total gross floor area of approximately 189,000 square meters. According to the cooperative joint venture contract and its supplementary agreement of Shanghai Ding Ding, T&T International is entitled to a total gross floor area of approximately 131,000 square meters and the other two non-controlling equity holders holding the remaining 31.66% equity interests of Shanghai Ding Ding is entitled to a total gross floor area of approximately 58,000 square meters.

T&T International and Shanghai Ding Ding are accounted for as subsidiaries of the Group and their financial statements are consolidated into the Company's consolidated financial statements since 28 June 2010. According to the cooperative joint venture contract and the supplementary agreement as mentioned above, the profits or losses and net assets relating to the gross floor area of approximately 58,000 square meters, which are attributable to the two non-controlling equity holders in Shanghai Ding Ding, are presented as non-controlling interests in the Company's consolidated financial statements.

(ii) SOHO (Shanghai) Investment Co., Ltd.

In 2010, SOHO (Shanghai) Investment Co., Ltd., a subsidiary of the Group, acquired the land use right to a parcel of land, Linkong Plot 15 Land situated in Shanghai Hongqiao, the PRC. This project was as known as Hongqiao SOHO after the acquisition by the Group.

Notes to the financial statements (continued)

13 Interest in jointly controlled entity – the Group

	2010 RMB'000	2009 RMB'000
Share of net assets	1,211,900	–

Details of the Group's interest in the jointly controlled entity are as follows:

Name of jointly controlled entity	Form of business structure	Place of incorporation	Principal activities	Particulars of paid-in capital/registered capital	Proportion of ownership interest held by a subsidiary
Shanghai Hong Sheng Real Estate Development Co., Ltd.	Incorporated	Shanghai, the PRC	Development of Fu Xing Tian Di Centre project	RMB840,000,000	48.4761% <i>Note (i)</i>

(i) Shanghai Hong Sheng Real Estate Development Co., Ltd. ("Shanghai Hong Sheng")

In 2010, the Group entered into a cooperative framework agreement with a third party to acquire 48.4761% equity interests in Shanghai Hong Sheng, that develops Fu Xing Tian Di Centre project located at land lot No. 43, Lu Wan District, Shanghai, the PRC.

Summary financial information on jointly controlled entity – the Group's effective interest:

	2010 RMB'000
Non-current assets	30
Current assets	1,892,889
Non-current liabilities	(533,238)
Current liabilities	(147,781)
Net assets	1,211,900
Income	–
Expenses	–
Loss for the year	–

14 Income tax in the consolidated balance sheet – the Group

(a) Current taxation in the consolidated balance sheet represents:

	2010 RMB'000	2009 RMB'000
PRC Corporate Income Tax payable	1,898,219	767,241
Land Appreciation Tax payable	5,068,491	2,933,156
	6,966,710	3,700,397

(b) Deferred tax assets and liabilities recognised:

- (i) The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

Note	Tax losses RMB'000	Properties under development and completed properties held for sale RMB'000	Investment property RMB'000	Office premises RMB'000	Withholding tax on the profit of PRC subsidiaries RMB'000 (Note 14(b)(ii))	Derivative financial instruments RMB'000	Total RMB'000
At 1 January 2009	89,807	(23,167)	-	(39,682)	-	(9,735)	17,223
Credited/(charged) to profit and loss	6(a) (63,137)	460,515	(536,115)	-	-	9,735	(129,002)
Acquisition of subsidiaries	65,003	-	-	-	-	-	65,003
At 31 December 2009	91,673	437,348	(536,115)	(39,682)	-	-	(46,776)
At 1 January 2010	91,673	437,348	(536,115)	(39,682)	-	-	(46,776)
Credited/(charged) to profit and loss	6(a) (90,518)	490,061	(41,250)	-	(93,656)	-	264,637
Acquisition of a subsidiary	28 -	15,125	-	-	-	-	15,125
At 31 December 2010	1,155	942,534	(577,365)	(39,682)	(93,656)	-	232,986

- (ii) The deferred tax liabilities recognised in the consolidated balance sheet as at 31 December 2010 relate to the withholding tax as described in Note 6(a)(iv) at the rate of 10% on the profit of the Company's PRC subsidiaries for the year ended 31 December 2010, which are to be distributed in the foreseeable future.

Notes to the financial statements (continued)

14 Income tax in the consolidated balance sheet – the Group (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

(iii) Reconciliation to the consolidated balance sheet:

	2010 RMB'000	2009 RMB'000
Net deferred tax assets recognised in the consolidated balance sheet	1,019,420	557,761
Net deferred tax liabilities recognised in the consolidated balance sheet	(786,434)	(604,537)
	232,986	(46,776)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses in certain subsidiaries of RMB243,122,000 as at 31 December 2010 (2009: RMB284,210,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant subsidiaries. As at 31 December 2010, RMB11,508,000, RMB24,648,000, RMB118,731,000, RMB44,354,000 and RMB43,881,000 of these tax losses will expire in 2011, 2012, 2013, 2014 and 2015, respectively.

(d) Deferred tax liabilities not recognised

As at 31 December 2010, temporary differences relating to the undistributed profits of the subsidiaries in the PRC amounted to RMB5,280,469,000 (2009: RMB3,850,685,000). Deferred tax liabilities of RMB528,047,000 (2009: RMB385,069,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

15 Properties under development and completed properties held for sale – the Group

	2010 RMB'000	2009 RMB'000
Properties under development	14,816,008	13,153,953
Completed properties held for sale	3,881,475	8,366,842
	18,697,483	21,520,795

15 Properties under development and completed properties held for sale – the Group (continued)

- (a) The analysis of carrying value of leasehold land included in properties under development and completed properties held for sale is as follows:

	2010 RMB'000	2009 RMB'000
In the PRC		
– long lease	209,739	1,454,227
– medium-term lease	14,362,693	11,934,291
	14,572,432	13,388,518

- (b) The amount of properties under development expected to be recovered after more than one year is analysed as follows:

	2010 RMB'000	2009 RMB'000
Properties under development	13,243,249	9,439,056

All of the other properties under development and completed properties held for sale are expected to be recovered within one year.

- (c) The cost of properties sold for the year ended 31 December 2010 amounted to RMB8,958,349,000 (2009: RMB3,556,393,000).
- (d) Certain portion of the Group's properties under development and completed properties held for sale were pledged against the bank loans, details are set out in Note 19.

16 Trade and other receivables

	Note	2010 RMB'000	2009 RMB'000
The Group			
Trade receivables	(a)	360,211	567,996
Other receivables		433,876	110,666
Less: allowance for doubtful debts	(b)	(3,863)	(7,720)
Loans and receivables	(c)	790,224	670,942
Deposits and prepayments		1,006,408	895,042
		1,796,632	1,565,984
The Company			
Amounts due from subsidiaries	(c)	14,542,590	13,499,024

Notes to the financial statements (continued)

16 Trade and other receivables (continued)

(a) Ageing analysis

The ageing analysis of trade receivables are as follows:

	2010 RMB'000	2009 RMB'000
Current	291,972	491,159
Less than 1 month past due	3	12,412
1 to 6 months past due	6,400	1,244
6 months to 1 year past due	852	16,554
More than 1 year past due	60,984	46,627
Amounts past due	68,239	76,837
	360,211	567,996

The Group's credit policy is set out in Note 25(a).

(b) Impairment of loans and receivables

Impairment losses in respect of loans and receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against loans and receivables directly (see Note 1(h)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	7,720	1,650
Impairment loss (reversed)/recognised, net	(3,857)	6,070
At 31 December	3,863	7,720

At 31 December 2010, the Group's loans and receivables of RMB3,863,000 (2009: RMB7,720,000) were individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that no receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB3,863,000 (2009: RMB7,720,000) respectively were recognised. The Group does not hold any collateral over these balances.

16 Trade and other receivables (continued)

(c) Loans and receivables that are not impaired

The ageing analysis of loans and receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	563,106	491,159	14,542,590	13,499,024
Less than 1 month past due	30,227	57,490		
1 to 6 months past due	50,287	8,504		
6 months to 1 year past due	43,761	42,572		
More than 1 year past due	102,843	71,217		
	227,118	179,783		
	790,224	670,942		

Receivables that were neither past due nor impaired relate to customers and debtors for whom there was no recent history of default.

Receivables that were past due but not impaired mainly relate to a number of independent customers to whom the title of the property units have not been transferred and debtors that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group holds the title of the property units as collateral over the balance of trade receivables of RMB243,004,000 as at 31 December 2010 (2009: RMB446,947,000), and does not hold any collateral over the balance of other receivables.

17 Bank deposits – the Group

	Note	2010 RMB'000	2009 RMB'000
Bank deposits for:			
Guarantees for mortgage loans	(i)	1,109,093	557,041
Guarantees for construction fees	(ii)	160,095	96,055
Guarantees for bank loans	(iii)	2,571,727	624,595
		3,840,915	1,277,691

Notes to the financial statements (continued)

17 Bank deposits – the Group (continued)

The above bank deposits are restricted as follows:

- (i) The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of the property units. As at 31 December 2010, the Group had deposits of RMB1,109,093,000 (2009: RMB557,041,000) as security for settlement of the mortgage instalments under these agreements. Should the mortgagors fail to pay the mortgage monthly instalments, the bank can draw down the security deposits up to the amount of outstanding mortgage instalments and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient.
- (ii) As at 31 December 2010, pursuant to a government regulation, the Group had deposits of RMB160,095,000 (2009: RMB96,055,000) as non-cancellable guarantees on construction fees payable to construction contractors. Should the Group fail to settle related construction fees, the bank can draw down the deposits to settle the relevant sums and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient.
- (iii) As at 31 December 2010, the Group had deposits of RMB2,571,727,000 (2009: RMB624,595,000) as non-cancellable guarantees on bank loans. Should the Group fail to settle the bank loans, the bank can draw down the deposits to settle the relevant sums and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient.

18 Cash and cash equivalents

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Cash on hand	1,121	1,805	–	–
Cash at bank and other financial institutions	9,899,550	5,602,951	457,312	379,952
Term deposits with banks and other financial institutions	7,824,250	3,637,123	–	682,820
Cash and cash equivalents in the balance sheet	17,724,921	9,241,879	457,312	1,062,772
Less: Term deposits with banks and other financial institutions over 3 months	3,690,424	2,119,111		
Cash and cash equivalents in the consolidated cash flow statements	14,034,497	7,122,768		

19 Bank loans

(a) The bank loans were repayable as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within 1 year or on demand	2,580,744	550,000	680,744	–
After 1 year but within 2 years	3,323,222	2,400,000		
After 2 years but within 5 years	1,803,949	3,369,660		
After 5 years	925,000	–		
	6,052,171	5,769,660		
	8,632,915	6,319,660		

The bank loans were secured as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Secured	6,428,949	4,750,000	–	–
Unsecured	2,203,966	1,569,660	680,744	–
	8,632,915	6,319,660	680,744	–

(b) The following items were pledged and entities or individuals provided guarantees to secure and guarantee certain bank loans granted to the Group at 31 December:

(i) As at 31 December 2010, RMB4,625,000,000 bank loans (2009: RMB4,750,000) were secured by following items:

	2010 RMB'000	2009 RMB'000
Properties under development and completed properties held for sale	4,310,772	3,660,569
Investment properties	3,085,000	–
Bank deposits	503,741	624,595
	7,899,513	4,285,164

Notes to the financial statements (continued)

19 Bank loans (continued)

(b) The following items were pledged and entities or individuals provided guarantees to secure and guarantee certain bank loans granted to the Group at 31 December (continued):

(ii) As at 31 December 2010, RMB367,026,000 bank loans (2009: RMB nil) were secured by the shares of three subsidiaries of the Group, Star Well Industrial Limited, Rikarda International Limited and Rakarta International Limited.

(iii) As at 31 December 2010, RMB1,436,923,000 bank loans (2009: RMB nil) were secured by the shares of Sure Fancy Investment Limited, the subsidiary of the Group, and a restricted bank deposit of RMB2,067,986,000, and guaranteed by Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita (see Note 27(c)(ii)).

(c) The effective interest rates per annum on bank loans at amortised cost are as follows:

	The Group		The Company	
	2010	2009	2010	2009
	%	%	%	%
Bank loans included in current liabilities	2.7%-5.16%	5.92%	2.7%	–
Bank loans included in non-current liabilities	2.03%-8.05%	2.00%-5.41%	–	–

20 Trade and other payables – the Group

	Note	2010 RMB'000	2009 RMB'000
Accrued expenditure on land and construction	(i)	806,709	1,827,479
Consideration payable for acquisition of subsidiaries and jointly controlled entity		621,461	16,320
Amounts due to related parties	27(a)	350,628	–
Others		605,870	267,420
Financial liabilities measured at amortised costs		2,384,668	2,111,219
Sales deposits	(ii)	6,720,091	5,314,274
Other taxes payable	(iii)	201,686	282,683
		9,306,445	7,708,176

Notes:

- (i) These accrued expenditure payables on land and construction are expected to be settled within a year.

The ageing analysis of accrued expenditure on land and construction is as follows:

	2010 RMB'000	2009 RMB'000
Due within 1 month or on demand	134,318	350,494
Due after 1 month but within 3 months	672,391	1,476,985
	806,709	1,827,479

- (ii) Sales deposits represented proceeds received on property unit sales that have not been recognised as revenue in accordance with the Group's revenue recognition policy.
- (iii) Other taxes payable mainly comprised business tax payable, deed tax payable, urban real estate tax payable, stamp duty payable and withholding tax payable.

Notes to the financial statements *(continued)*

21 Convertible bonds

On 2 July 2009, the Company issued convertible bonds (the "Convertible Bonds") due 2014, bearing interest at the rate of 3.75% per annum. The aggregate principal amount of the Convertible Bonds issued is Hong Kong dollars ("HKD") 2,800,000,000. Each bond will at the option of the holder be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 11 August 2009 up to and including 25 June 2014 into the Company's fully paid ordinary shares with a par value of HKD0.02 each at an initial conversion price of HKD5.88 per share subject to adjustment for, amongst other things, consolidation, subdivision or reclassification of shares, capitalisation of profits or reserve, capital distribution, right issues, issues at less than current market price, modification of rights of conversion, other offers to shareholders and other events which have a dilutive effect on the issued share capital of the Company. The interest is payable semi-annually. The Convertible Bonds are listed on Singapore Stock Exchange Securities Trading Limited.

As at 31 December 2010, the conversion price of the Convertible Bonds was adjusted to HKD5.60 per share as a result of the final dividend of 2009 and the interim dividend of 2010 declared during the year ended 31 December 2010.

The initial recognition of the liability component of the Convertible Bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Interest expense is calculated using the effective interest method by applying the effective interest rate of 9.32% to the liability component. The excess of proceeds from the issuance of the Convertible Bonds, net of issuance costs, over the amount initially recognised as the liability component is recognised as the capital reserve in equity. The initial carrying amounts of liability and equity component of the Convertible Bonds were RMB1,914,959,000 and RMB514,395,000 upon issuance, respectively.

As at 31 December 2010, the carrying amounts of the liability component, including the accrued interests, and the equity component of the Convertible Bonds were RMB1,984,828,000 (2009: RMB1,958,783,000) and RMB514,395,000 (2009: RMB514,395,000), respectively.

22 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2009		107,485	11,424,236	867	35,891	(1,071,499)	97,186	628,258	11,222,424
Total comprehensive income for the year		-	-	-	-	(20,187)	-	1,061,944	1,041,757
Equity component of the Convertible Bonds	21	-	-	-	514,395	-	-	-	514,395
Dividends approved in respect of the previous year	22(b)	-	-	-	-	-	-	(518,766)	(518,766)
Equity settled share-based transactions	24	-	-	-	9,648	-	-	-	9,648
At 31 December 2009		107,485	11,424,236	867	559,934	(1,091,686)	97,186	1,171,436	12,269,458
At 1 January 2010		107,485	11,424,236	867	559,934	(1,091,686)	97,186	1,171,436	12,269,458
Total comprehensive income for the year		-	-	-	-	(476,977)	-	1,430,035	933,058
Dividends approved in respect of the previous year	22(b)	-	-	-	-	-	-	(1,660,050)	(1,660,050)
Equity settled share-based transactions	24	-	-	-	1,455	-	-	-	1,455
At 31 December 2010		107,485	11,424,236	867	561,389	(1,568,663)	97,186	941,421	11,563,921

Notes to the financial statements (continued)

22 Capital, reserves and dividends (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2010 RMB'000	2009 RMB'000
Interim dividend declared and paid of RMB0.12 per ordinary share (2009: RMB nil)	622,519	–
Final dividend proposed after the balance sheet date of RMB0.14 per ordinary share (2009: RMB0.20 per ordinary share)	726,272	1,037,531
	1,348,791	1,037,531

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.20 per share (2009: RMB0.10 per share)	1,037,531	518,766

(c) Share capital

	Note	2010		2009	
		No. of shares (‘000)	Share capital RMB'000	No. of shares (‘000)	Share capital RMB'000
Authorised:					
Ordinary shares of HKD0.02 each		7,500,000		7,500,000	
Issued and fully paid:					
At 1 January and 31 December		5,187,657	107,485	5,187,657	107,485
Outstanding:					
At 1 January		5,185,447	107,485	5,187,657	107,485
Treasury shares	(i)	–	–	(2,210)	–
At 31 December		5,185,447	107,485	5,185,447	107,485

22 Capital, reserves and dividends (continued)

(c) Share capital (continued)

(i) Treasury shares

On 14 September 2009, the Group acquired 2,210,000 shares of the Company on market, at a total consideration of HKD9,960,300, for the purpose of setting up an employees' share award scheme in which certain senior management personnel (including any executive directors) of the Group would be entitled to participate. The purpose of the employees' share award scheme is to give incentive to participants in order to retain them for the continued development of the Group. The shares are held as treasury shares and have been deducted from total equity attributable to equity shareholders of the Company.

The aforesaid employees' share award scheme was launched by the Group on 23 December 2010. No employees have been granted shares under the share award scheme as at the date of this report.

(ii) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price	2010 Number	2009 Number
8 October 2008 to 7 October 2013	HKD8.30	8,405,280	10,190,575
30 January 2009 to 29 January 2014	HKD6.10	4,712,000	5,818,000
30 June 2009 to 29 June 2014	HKD4.25	580,000	1,080,000
		13,697,280	17,088,575

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in Note 24 to the financial statements.

(d) Nature and purpose of reserves

(i) Share premium

The share premium account is governed by the Cayman Companies Law and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to equity shareholders; (b) paying up unissued shares of the Company to be issued to equity shareholders as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the Company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the Company.

No distribution or dividend may be paid to equity shareholders out of share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

The capital reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company (see Note 24) and the equity component of the Convertible Bonds (see Note 21).

Notes to the financial statements *(continued)*

22 Capital, reserves and dividends *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 1(s).

(iv) Revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for office premises in Note 1(g).

The revaluation reserve of the Company in respect of office premises is distributable to the extent of RMB38,986,000 (2009: RMB38,986,000).

(v) General reserve fund

Pursuant to the Articles of Association of the Company's subsidiaries in the PRC, appropriations to the general reserve fund were made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. The percentage for this appropriation was decided by the directors of the subsidiaries. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

(e) Distributability of reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB941,421,000 (2009: RMB1,171,436,000), excluding the share premium and the distributable revaluation reserve as disclosed in Note 22(d)(i) and 22(d)(iv), respectively. After the balance sheet date the directors proposed a final dividend of RMB14 cents per ordinary share (2009: RMB20 cents per ordinary share), amounting to RMB726,272,000 (2009: RMB1,037,531,000). This dividend has not been recognised as a liability at the balance sheet date.

(f) Acquisition of non-controlling interests

During the year ended 31 December 2009, the Group acquired the non-controlling interests on certain subsidiaries with an aggregate book value of RMB nil at a total consideration of RMB2,205,000. The excess of consideration over the book value of RMB2,205,000 was treated as an equity transaction.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can fund its development and construction of real estate projects, and continue to provide returns for shareholders, by pricing properties commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to strictly control the debt level. The Group maintains a strategy on acquiring land only if the project development can commence within a short period of time so as to minimise the time period between acquisition and development of the acquired land, thus the Group's capital can be efficiently deployed.

Consistent with industry practice, the Group monitors its capital structure on the basis of a gearing ratio, which was unchanged from 2007, as defined by the Group, being the total of bank and interest bearing borrowings (including convertible bonds) divided by the total assets. As at 31 December 2010, the gearing ratio of the Group was 22.15% (2009: 21.93%).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 Employee benefit plan

The Group participates in a defined contribution retirement scheme established by the Beijing Municipal Labour Bureau and Shanghai Municipal Labour Bureau for its staff. The Group was required to make contributions to the retirement scheme at 20% and 22% of the gross salaries of its staff in Beijing and Shanghai, respectively, during the years ended 31 December 2010 and 2009.

The Group has no other obligation for the payment of post-retirement benefits beyond the contributions described above.

24 Equity settled share-based transactions

The Company has adopted a Pre-IPO share option scheme and an IPO share option scheme on 14 September 2007, whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at HKD1 consideration to subscribe for shares of the Company. The options vest in a period of three years from the date of grant and are then exercisable within a period of six years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 8 October 2007	1,573,750	Three years from the date of grant	6 years
– on 30 January 2008	1,124,000	Three years from the date of grant	6 years
– on 30 June 2008	500,000	Three years from the date of grant	6 years
Options granted to employees:			
– on 8 October 2007	10,484,250	Three years from the date of grant	6 years
– on 30 January 2008	6,135,000	Three years from the date of grant	6 years
– on 30 June 2008	580,000	Three years from the date of grant	6 years
Total share options	20,397,000		

Notes to the financial statements (continued)

24 Equity settled share-based transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2010		2009	
	Weighted average exercise price HKD	Number of options '000	Weighted average exercise price HKD	Number of options '000
Outstanding at the beginning of the year	7.30	17,089	7.30	19,060
Forfeited during the year	6.99	(3,392)	7.37	(1,971)
Outstanding at the end of the year	7.37	13,697	7.30	17,089
Exercisable at the end of the year	7.59	11,933	7.76	9,093

The options outstanding at 31 December 2010 and 2009 had an exercise price of HKD8.30, HKD6.10 or HKD4.25 and a weighted average remaining contractual life of 35 months (2009: 47 months).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes Model.

	Granted on 30 June 2008	Granted on 30 January 2008	Granted on 8 October 2007
Fair value at measurement date	HKD1.51	HKD2.24	HKD3.25
Share price	HKD4.25	HKD6.10	HKD8.30
Exercise price	HKD4.25	HKD6.10	HKD8.30
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes Model)	49.36%	46.35%	45.91%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	4 years	4 years	4 years
Expected dividends	2.278%	0.5192%	0.478%
Risk-free interest rate (based on Exchange Fund Notes)	3.111%	1.980%	3.9275%

The expected volatility is based on the historic volatility of the share price over the most recent period, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on the dividends policies of the Company.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

25 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. The Group would not release the property ownership certificates to the buyers before the buyers finally settle the selling price.

As at 31 December 2010 and 2009, the Group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

(b) Liquidity risk

Historically, the Group relied to a great extent on proceeds received from pre-sale of property units (sold in advance of the completion of the real estate projects) to fund its development and construction of real estate projects. As there is no assurance that proceeds received from future pre-sales of the Group's current real estate projects will be sufficient to meet the Group's needs, the Group's operating plan requires it to raise additional funds to finance the development and construction of its current real estate projects. If the Group is unable to raise additional equity or debt financing, the Group's expansion plans and operations might need to be curtailed.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses, issuing convertible bonds, and the raising of loans to cover expected cash demands, subject to approval by the Company's board of directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term.

Notes to the financial statements (continued)

25 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

	2010					Balance sheet carrying amount	2009					Balance sheet carrying amount
	Contractual undiscounted cash outflow						Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
The Group												
Bank loans	(2,923,484)	(3,505,539)	(2,948,027)	(1,295,116)	(10,672,166)	8,632,915	(813,203)	(2,620,147)	(3,413,612)	(6,846,962)	6,319,660	
Convertible bonds	(89,348)	(89,348)	(2,517,122)	-	(2,695,818)	1,984,828	(92,450)	(92,450)	(2,696,470)	(2,881,370)	1,958,783	
Contract retention payables	-	(48,251)	(225,481)	-	(273,732)	273,732	-	(164)	(22,077)	(22,241)	22,241	
Financial liabilities measured at amortised costs	(2,384,668)	-	-	-	(2,384,668)	2,384,668	(2,111,219)	-	-	(2,111,219)	2,111,219	
	(5,397,500)	(3,643,138)	(5,690,630)	(1,295,116)	(16,026,384)	13,276,143	(3,016,872)	(2,712,761)	(6,132,159)	(11,861,792)	10,411,903	
The Company												
Bank loans	(684,828)	-	-	-	(684,828)	680,744	-	-	-	-	-	
Convertible bonds	(89,348)	(89,348)	(2,517,122)	-	(2,695,818)	1,984,828	(92,450)	(92,450)	(2,696,470)	(2,881,370)	1,958,783	
Other payables	(59,714)	-	-	-	(59,714)	59,714	(22,419)	-	-	(22,419)	22,419	
Amounts due to subsidiaries	(1,032,489)	-	-	-	(1,032,489)	1,032,489	(683,982)	-	-	(683,982)	683,982	
	(1,866,379)	(89,348)	(2,517,122)	-	(4,472,849)	3,757,775	(798,851)	(92,450)	(2,696,470)	(3,587,771)	2,665,184	

25 Financial risk management and fair values (continued)

(c) Interest rate risk

The interest rates of the Group's bank loans, convertible bonds and interest-bearing advances to/from related parties are disclosed in Note 19, Note 21 and Note 27, respectively. The annual interest rates of the Group's deposits at bank ranged from 0.36% to 2.50% as at 31 December 2010 (2009: 0.36% to 1.53%).

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in borrowing interest rates for bank loans and convertible bonds interest rate, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB30,853,000 (2009: RMB22,946,000) and would increase/decrease the Group's properties under development and completed properties held for sale by approximately RMB40,611,000 (2009: RMB36,962,000). In addition, it is estimated that a general increase/decrease of 100 basis points in bank deposit interest rates for foreign currency deposits other than RMB, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB8,065,000 (2009: RMB9,341,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2009.

(d) Foreign currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through PBOC or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All the revenue-generating operations of the Group are transacted in RMB. The Group is exposed to foreign currency risk on financing transactions denominated in currencies other than RMB and HKD. Depreciation or appreciation of the RMB and HKD against foreign currencies can affect the Group's results. The Group did not hedge its currency exposure.

Notes to the financial statements (continued)

25 Financial risk management and fair values (continued)

(d) Foreign currency risk (continued)

Included in cash and cash equivalents and bank loans in the consolidated balance sheet and the Company's balance sheet as at 31 December 2010 and 2009, the amounts denominated in currencies other than the functional currency of the entities to which they relate were as follows:

	The Group		The Company	
	2010 '000	2009 '000	2010 '000	2009 '000
United States Dollars ("USD")				
– Cash and cash equivalents	123,775	236,099	58,586	155,399
– Bank loans	(511,000)	(230,000)	–	–

5% increase or decrease in USD exchange rate against RMB, assuming such change had occurred as at 31 December 2010, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB128,869,000 (2009: would not have a significant impact on the Group's results of operation and financial position).

(e) Fair values

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009.

The method and major assumptions used in estimating the fair value of the share options granted to employees of the Group are set out in Note 24.

Forward exchange contracts are either market to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

26 Commitments and contingent liabilities

(a) Commitments

Commitments in respect of properties under development outstanding at 31 December not provided for in the financial statements were as follows:

	The Group	
	2010 RMB'000	2009 RMB'000
Contracted for	4,819,135	1,082,896
Authorised but not contracted for	5,496,593	3,336,512
	10,315,728	4,419,408

(b) Guarantees

The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of property units. The Group has given guarantees on mortgage loans provided to the buyers by these banks. For most residential mortgages, the guarantees will be released when the property title deeds are pledged to banks as security for the respective mortgage loans, which generally take place within one year after the property units are delivered to the buyers. For some mortgage loans, the agreements with the banks stipulate that the guarantee periods are generally 7 to 17 years from the effective date of the mortgage loan contract. The amount of guarantees relating to such agreements was approximately RMB4,450,000 as at 31 December 2010 (2009: RMB18,317,000). The total amount of mortgages outstanding which are guaranteed by the Company's subsidiaries, including the amount of guarantees with guarantee periods of generally 7 to 17 years mentioned above was RMB6,587,052,000 as at 31 December 2010 (2009: RMB3,701,817,000).

As at 31 December 2010, the Company provided a guarantee to a subsidiary with respect to its bank loan of RMB1,523,222,000 (2009: RMB1,569,660,000).

Notes to the financial statements (continued)

26 Commitments and contingent liabilities (continued)

(c) Warranty against defects of properties

Properties purchased by buyers are provided with various warranties of term between one to five years against certain defects as stipulated in the PRC laws and regulations which are covered by back-to-back warranties provided by the relevant contractors of the projects.

(d) Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the normal course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the directors believe that any resulting liabilities will not have a material adverse effect on the financial position, liquidity, or operating results of the Group.

(e) Investment properties and properties held for sale

The Group leases out investment properties and certain properties held for sale under operating leases. The leases typically run for an initial period of 1 to 8 years, with an option to renew the lease after that date at which time all terms are renegotiated.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2010 RMB'000	2009 RMB'000
Within 1 year	117,457	146,834
After 1 year but within 5 years	261,243	358,649
After 5 years	2,099	6,725
	380,799	512,208

27 Material related party transactions

(a) Amounts due to related parties, and corresponding transactions

Amounts due to related parties, included in current liabilities, comprise:

	Note	2010 RMB'000	2009 RMB'000
Shanghai Yi Dian	(i)	151,254	–
Shanghai Rural Commercial Bank	(i)	151,254	–
Mr. Pan Shiyi	(ii)	48,120	–
		350,628	–

(i) The balances as at 31 December 2010 mainly represented the advances of RMB302,508,000 from Shanghai Yi Dian Holdings (Group) Co., Ltd. ("Shanghai Yi Dian") and Shanghai Rural Commercial Bank, the non-controlling equity holders of Shanghai Ding Ding which were incurred before the acquisition by the Group. The advances were interest-free, unsecured and had no fixed term of repayment.

(ii) The balances as at 31 December 2010 represented the dividend payable to Mr. Pan Shiyi, the non-controlling shareholder of Beijing Shanshi Real Estate Co., Ltd. ("Beijing Shanshi") and Beijing SOHO Real Estate Co., Ltd. ("Beijing SOHO") which was declared by Beijing Shanshi in September 2010 and Beijing SOHO in December 2010, respectively.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 7 and certain of the highest paid employees as disclosed in Note 8 is as follows:

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	32,321	34,528
Post-employment benefits	112	175
Share-based payments	520	3,453
	32,953	38,156

Total remuneration is included in "Staff costs" (see Note 4(b)).

Notes to the financial statements (continued)

27 Material related party transactions (continued)

(c) Other related party transactions

(i) Guarantees provided to the Group

Beijing Redstone Industry Co., Ltd. ("Redstone Industry"), a company controlled by Mr. Pan Shiyi, entered into agreements with certain banks in 1998 and 1999 with respect to guarantees for mortgage loans provided to certain buyers of the Group's properties. Redstone Industry provided guarantees amounting to RMB21,831,000 for these buyers as at 31 December 2010 (2009: RMB46,835,220). The guarantee period generally ranged from 2 to 17 years.

(ii) Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita entered into guarantee agreements with a bank with respect to the long-term bank loans amounted to RMB1,436,923,000 as at 31 December 2010 provided to the Group. The guarantees will be released upon the repayment of the bank loans.

(iii) Property purchase contract between Mrs. Pan Zhang Xin Marita and Beijing Redstone Newtown Real Estate Co., Ltd. ("Redstone Newtown")

Tianjin Jingshi Investment Management & Consulting Co., Ltd. ("Tianjin Jingshi"), a company controlled by Mrs. Pan Zhang Xin Marita, and Redstone Newtown, a subsidiary of the Group, entered into a property purchase contract on 28 April 2009, pursuant to which Tianjin Jingshi agreed to purchase a unit in the Commune by the Great Wall project for a consideration of RMB15,300,000, which was settled in 2009.

28 Acquisition of subsidiaries

In 2010, the Group acquired 90% of the equity interests of T&T International (see Note 12(i)). The assets acquired and liabilities assumed did not constitute a business as defined in HKFRS 3 and, therefore, these acquisitions have been accounted for as assets acquisition. The acquisitions had the following effect on the Group's assets and liabilities on the acquisition dates:

	<i>RMB'000</i>
Property and equipment	322
Deferred tax assets	15,125
Properties under development and completed properties held for sale	2,934,717
Trade and other receivables	437
Cash and cash equivalents	57,114
Trade and other payables	(639,939)
Taxation	(5,216)
Non-controlling interests	(409,149)
Net assets and liabilities	1,953,411
Cash consideration	1,953,411
Consideration payables	(390,682)
Cash acquired	(57,114)
Net cash outflow	1,505,615

29 Critical accounting judgements in applying the Group's accounting policies

Estimates and judgements used in preparing the accounts are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities mainly include those related to property development activities.

(a) Land appreciation taxes

PRC land appreciation tax is levied 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 sales charges, borrowing costs and all property development expenditures.

The Group is subject to land appreciation taxes in the PRC which has been included in income tax of the Group. However, the Group has not finalised its land appreciation tax returns with the tax authorities for certain property development projects of the Group. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

(b) Provision for properties under development and completed properties held for sale

As explained in Note 1(j), the Group's properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion in case for properties under development, and the costs to be incurred in selling the properties based on prevailing market conditions.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in provision for properties under development and completed properties held for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

In addition, given the volatility of the PRC property market and the unique nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than estimated at the balance sheet date. Any increase or decrease in the provision would affect profit or loss in future years.

(c) 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 profit or loss 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 typically divides 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 market value of each phase as a percentage of the total estimated market value of the entire project, or if the above is not practicable, the common costs are allocated to individual phases based on saleable area.

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.

Notes to the financial statements *(continued)*

29 Critical accounting judgements in applying the Group's accounting policies *(continued)*

(d) Impairment for property and equipment

If circumstances indicate that the net book value of a property or equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised to reduce the carrying amount to the recoverable amount in accordance with the accounting policy for impairment of property and equipment as described in Note 1(h)(ii). The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of future income and operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future income and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(e) Valuation of investment property

As described in Note 11(a), investment properties are stated at fair value based on the valuation performed by an independent firm of professional valuers after taking into consideration the market evidence of transaction prices, and where appropriate, the rental income allowing for reversionary income potential.

In determining the fair value, the valuers have based on the market conditions existing at the balance sheet date or where appropriate, a method of valuation which involves, inter alia, certain estimates including market prices, current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, the management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(f) Impairment for loans and receivables

The Group estimates impairment losses for loans and receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the loans and receivables balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(g) Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendment to HKAS 32, Financial instruments: Presentation – Classification of rights issues	1 February 2010
HK(IFRIC) 19, Extinguishing financial liabilities with equity instruments	1 July 2010
Amendment to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Revised HKAS 24, Related party disclosures	1 January 2011
Amendments to HK(IFRIC) 14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement	1 January 2011
Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Severe hyperinflation and removal of fixed date for first-time adopters	1 July 2011
Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets	1 July 2011
Amendments to HKAS 12, Income taxes – Deferred tax: Recovery of underlying assets	1 January 2012
HKFRS 9, Financial instruments (2009) Basis for conclusions on HKFRS 9 (2009) Amendments to other HKFRSs and guidance on HKFRS 9 (2009)	1 January 2013
HKFRS 9, Financial instruments (2010) Basis for conclusions on HKFRS 9 (2010) Implementation guidance on HKFRS 9 (2010)	1 January 2013

Notes to the financial statements *(continued)*

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2010 *(continued)*

The Group is in the process of making an assessment of what the impact of these amendments, new standards and Interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

31 Ultimate holding company

At 31 December 2010, the directors consider the ultimate holding company to be Capevale Limited, which is incorporated in the Cayman Islands. This entity does not produce financial statements available for public use.

32 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in the current year.

REGISTERED OFFICES

Registered Office	Corporate Headquarters	Place of Business in Hong Kong
Cricket Square, Hutchin Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands	11F, Section A, Chaowai SOHO No. 6B Chaowai Street Chaoyang District Beijing, China	8F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong

TRUSTEE AND PAYING AGENT

The Bank of New York Mellon, London Branch

One Canada Square
40th Floor, London E14 5AL
United Kingdom

REGISTRAR

The Bank of New York Mellon (Luxembourg) S.A.

Vertigo Building – Polaris
2-4 rue Eugene Ruppert
L-2453, Luxembourg

LEGAL ADVISORS TO THE COMPANY

As to U.S. and Hong Kong Law

Sidley Austin

Level 39, Two International Finance Centre
8 Finance Street, Central
Hong Kong

As to PRC Law

As to Macau Law

*As to Cayman Islands
and British Virgin
Islands Law*

As to Barbados Law

Zhong Lun Law Firm

36-37/F, SK Tower
6A Jianguomenwai
Avenue
Beijing, P.R.China

MdME

Alameda Dr. Carlos
D'Assumpção, 180
Edf. Tong Nam Ah
16-andar, R-T
Macau

Walkers

Suite 1501-1507
Alexandra House
18 Chater Road, Central
Hong Kong

Lex Caribbean

Worthing Corporate
Centre
Christ Church
Barbados

LEGAL ADVISORS TO THE INITIAL PURCHASERS

As to U.S. Law

Davis Polk & Wardwell

The Hong Kong Club Building
3A Chater Road
Hong Kong

As to PRC Law

Commerce & Finance Law Offices

6F NCI Tower, A12 Jianguomenwai Avenue
Chaoyang District
Beijing, China

INDEPENDENT ACCOUNTANTS

KPMG

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

SOHO T CHINA