

US\$150,000,000**China Properties Group Limited***(Incorporated in the Cayman Islands with limited liability)***13.50% Senior Notes due 2018**

We are offering US\$150,000,000 13.50% senior notes due 2018 (the “Notes”). The Notes will bear interest at the rate of 13.50% per annum. The Notes will bear interest from the Original Issue Date, payable semi-annually in arrears on April 16 and October 16 of each year, commencing April 16, 2014. The Notes will mature on October 16, 2018. At any time on or after October 16, 2016, we may redeem the Notes in whole or in part, at the redemption prices specified under “Description of the Notes — Optional Redemption.” At any time prior to October 16, 2016, we may redeem the Notes at our option, 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 defined in “Description of the Notes”) applicable to the Notes as of, plus accrued and unpaid interest, if any, to, the redemption date. Before October 16, 2016, we may redeem up to 35% in aggregate principal amount of the Notes, at a redemption price equal to 113.5% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date, with the proceeds from sales of certain kinds of ordinary shares. We may redeem the Notes at our option, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date, in the event of certain changes in specified tax laws or other circumstances. Upon the occurrence of a Change of Control Triggering Event (as defined in “Description of the Notes”), we must make an offer to purchase all the Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the purchase date. See “Description of the Notes — Repurchase of Notes Upon a Change of Control Triggering Event.”

The Notes will (1) be general obligations of China Properties Group Limited (the “Company”), (2) rank at least *pari passu* in right of payment with respect to our unsecured, unsubordinated indebtedness, (3) rank senior in right of payment to any of our existing and future obligations expressly subordinated in right of payment to the Notes and (4) be effectively subordinated to our secured obligations and those of the Subsidiary Guarantors, other than Permitted *Pari Passu* Secured Indebtedness, to the extent of the assets serving as security therefor. The Subsidiary Guarantors will guarantee the Notes on a senior basis as more fully described herein. However, applicable law may limit the enforceability of the Subsidiary Guarantees. See “Risk Factors — Risks Relating to the Notes” and “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral.”

**Offering Price: 99.117%
plus accrued interest, if any**

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933 (the “Securities Act”) or other securities laws and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only outside the United States in accordance with Regulation S under the Securities Act. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this offering circular, see “Plan of Distribution” and “Transfer Restrictions.”

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”). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or information contained in this offering circular. Approval in-principle for the listing and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the offering, the Company, the Subsidiary Guarantors, their respective subsidiaries or associated companies (if any), the Subsidiary Guarantees or the Notes. Currently, there is no public market for the Notes.

Investing in the Notes involves risks. See “Risk Factors” beginning on page 13.

It is expected that the Notes will be ready for delivery, in book-entry form through the facilities of Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme*, Luxembourg (“Clearstream”) on or about October 16, 2013 (the “Closing Date”) against payment therefor in immediately available funds.

Sole Bookrunner and Lead Arranger

BofA Merrill Lynch

The date of this offering circular is October 8, 2013.

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This confidential offering circular does not constitute an offer to sell, or a solicitation of an offer to buy, any Note offered hereby by any person in any jurisdiction in which it is unlawful to make such an offer or solicitation. Neither the delivery of this offering circular nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in this offering circular is correct as of any date subsequent to the date hereof.

In connection with this offering, Merrill Lynch International, as the stabilizing manager, or any person acting for it, may purchase and sell the Notes in the open market. However, there is no obligation on the stabilizing manager to do so. These transactions may, to the extent permitted by applicable laws and regulations, include short sales, stabilizing transactions and purchases to cover positions created by short sales. These activities may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time and must in any event be brought to an end after a limited time. These activities will be undertaken solely for the account of the stabilizing manager and not for or on behalf of us.

No representation or warranty, express or implied, is made or given by Merrill Lynch International (the "Initial Purchaser"), Citicorp International Limited (the "Trustee" and "Collateral Agent"), Citigroup Global Markets Deutschland AG (the "Registrar") and Citibank, N.A., London Branch (the "Paying Agent" and "Transfer Agent") as to the accuracy or completeness of the information contained in this offering circular. Nothing contained in this offering circular is, or should be relied upon as, a promise or representation by the Initial Purchaser as to the past or future. Each investor should assume that the information appearing in this offering circular is accurate only as of the date on the front cover of this offering circular. Our business, financial condition or results of operations may have changed since that date.

You should rely only on the information contained in this offering circular. We have not, and the Initial Purchaser has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.

We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the Notes, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under the heading “Transfer Restrictions” in this offering circular. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

This offering circular has been submitted confidentially to a limited number of institutional investors so that they can consider a purchase of the Notes. We have not authorized its use for any other purpose. This offering circular may not be copied or reproduced in whole or in part. It may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this offering circular, you agree to these restrictions. See “Transfer Restrictions.”

Each person receiving this offering circular 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 Purchaser or any person affiliated with the Initial Purchaser 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 or the 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 or the Initial Purchaser.

We are not, and the Initial Purchaser is not, making an offer to sell the Notes and the Subsidiary Guarantees in any jurisdiction except where an offer or sale is permitted. The distribution of this offering circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this offering circular comes are required by the Company and the Initial Purchaser to inform themselves about and to observe any such restriction. No action is being taken to permit a public offering of the Notes and the Subsidiary Guarantees or the distribution of this offering circular in any jurisdiction where action would be required for such purposes.

This offering circular is based on information provided by us and by other sources that we believe are reliable. We cannot assure you that the market data from third parties is accurate or complete. This offering circular summarizes certain documents and other information to which we refer you for a more complete understanding of what we discuss in this offering circular.

We, the Initial Purchaser, the Trustee, the Registrar, the Paying Agent, the Transfer Agent, the Collateral Agent or any of our or their respective representatives are not making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering circular to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes.

In making an investment decision, you must rely on your own examination of our business and the terms of the offering, including the merits and risks involved. Each person receiving this offering circular acknowledges that such person has not relied on the Initial Purchaser, the Trustee, the Registrar, the Paying Agent or any person affiliated with the Initial Purchaser in connection with his or her investigation of the accuracy of such information or his or her investment decision.

The Company and the Initial Purchaser reserve the right to reject any offer to purchase any Notes, in whole or in part, for any reason, or to sell less than the aggregate principal amount of Notes offered by this offering circular.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this offering circular 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 China Properties Group Limited itself, or to China Properties Group Limited and its consolidated subsidiaries, as the context requires.

Market data, industry forecast and PRC and property industry statistics in this offering circular 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 Purchaser or our or its directors and advisors, and neither we, the Initial Purchaser nor our or its respective 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 PRC and property industry statistics.

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

The financial information included in this offering circular relating to the Group has been derived from its financial statements. Unless otherwise indicated, financial information in this offering circular has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which differ in certain respects from generally accepted accounting principles in certain other countries.

Solely for the convenience of the reader, this offering circular contains translations of certain H.K. dollar amounts into U.S. dollars. All such U.S. dollar translations have been made at the rate of HK\$7.7560 to US\$1.00, the noon buying rate in the City of New York for cable transfers in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on June 28, 2013. These translations are provided for reference and convenience only. No representation is made that the H.K. dollar amounts stated herein could have been, or could be, converted into U.S. dollars at such rates or at any other rate. See “Exchange Rate Information.”

References to “PRC” and “China,” for the statistical purposes of this offering circular, except where the context otherwise requires, do not include Hong Kong, Macau Special Administrative Region of the PRC, 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.

References to “GFA” are to gross floor area. References to “sq.m.” are to square meters.

Any discrepancies in any table between the total shown and the sum of the amounts listed are due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

ENFORCEABILITY OF FOREIGN JUDGMENTS

We are incorporated in the Cayman Islands with limited liability. Substantially all of our assets are located in the PRC. In addition, substantially all of our directors and officers are residents of the PRC or Hong Kong, and all or a substantial portion of the assets of such persons are or may be located outside the United States. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the PRC or Hong Kong, including judgments predicated upon the civil liability provisions of the U.S. federal or state securities laws.

Conyers Dill & Pearman (Cayman) Limited has advised us that there is uncertainty as to whether the courts of the Cayman Islands would (i) recognize or enforce judgments of U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States; or (ii) entertain original actions brought in the courts of the Cayman Islands, against us or our directors and officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

Conyers Dill & Pearman (Cayman) Limited has further advised us that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that: (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

FORWARD-LOOKING STATEMENTS

This offering circular contains forward-looking statements regarding, among other things, our financial conditions, future expansion plans and business strategy. These forward-looking statements are based on our current expectations about future events. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- our operations and business prospects;

- future developments, trends and competition in the PRC property market;
- our strategies, objectives and goals;
- availability of bank loans and other forms of financing;
- our capital expenditure plans;
- our dividend distribution plans;
- the prospective financial information regarding our business;
- fluctuations in foreign currency exchange rates;
- the general economic and political conditions in the PRC and elsewhere;
- changes to regulatory and operating conditions in the market in which we operate; and
- those other risks identified in the “Risk Factors” section of this offering circular.

The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan” and similar expressions are intended to identify a number of these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements where as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering circular might not occur and our actual results could differ materially from those anticipated in these forward-looking statements. Accordingly, you should not place undue reliance on any forward-looking statements.

SUMMARY

The following summary highlights information contained in, and is qualified in its entirety by, the more detailed information and financial statements including the notes thereto, appearing elsewhere in this offering circular. For certain risk factors that you should consider before purchasing the Notes, see “Risk Factors.”

Overview

We are a property development and investment company in China focusing on developing and creating high-quality, large-scale residential and commercial projects in strategic locations in Shanghai and Chongqing. We design our properties based on themes and concepts drawn from different cultures. Our properties are designed to target the significant and growing population of middle- and upper-middle-class purchasers and consumers in China, who we believe are attracted to a modern and upscale lifestyle and atmosphere. Our overall objectives are to exploit business opportunities, achieve sales growth and enhance rental income.

In selecting the locations of our residential projects, our focus is on suburban areas of major cities that we believe offer convenient transportation, particularly via subway and rail. We design our commercial properties with a view to attracting customers that are interested in luxury goods and services. Accordingly, we only select locations for our commercial development that we believe are among the most well-known commercial locations within a city.

We have in the past focused, and intend to continue to focus, on developing the following:

- **High-end and sizeable middle- and upper-middle-class residential projects.** These are high-end and well-located residential projects that target the growing middle- and upper-middle class in China. One characteristic of these projects is the use of distinct landscape and interior design features that are based on varying themes and motifs. Our projects include themes such as “hill-top,” “islands” and “lakeside.” In addition, we seek to develop a comprehensive community around each of our residential projects by developing community facilities such as schools, medical service centers, sporting venues and restaurants. We believe our projects provide high-quality living conditions in attractive environments.
- **Modern and upscale themed shopping street developments.** These are typically modern, well-designed architectural projects located on prime retail streets in major cities in China, which are intended to include areas for retail, residential, office, hotel, entertainment, cultural and recreational uses with great accessibility. Our aim is to make each of these projects a focal point for the entire district to attract residential, commercial and business operations.

By designing our developments to include such concepts, we seek to distinguish our developments from those of our competitors, enhance our brand name and improve our results of operations.

Our current property projects consist of the following:

- **Shanghai Cannes.** We are developing this large-scale residential community with supporting retail areas on a site located in the Minhang District of Shanghai. This project has five phases with different themes, and is expected to comprise a total GFA of approximately 1,984,313 sq.m. The construction and development of Phases I to IV has

been completed and all the residential and part of the retail portions, comprising a GFA of 1,522,717 sq.m., have been sold and delivered. Phase V is currently under planning, with completion expected between 2015 and 2016.

- Shanghai Concord City. We are developing this large-scale integrated retail, residential, office and hotel project located on West Nanjing Road, one of the most well-known shopping streets in Shanghai. This project is expected to comprise a total GFA of approximately 412,918 sq.m. We aim to establish Shanghai Concord City as one of the largest and highest-quality integrated residential and commercial developments in Shanghai. The construction and development of Phase I, comprising a GFA of 64,332 sq.m., has been completed, of which 12,382 sq.m. of residential properties have been sold and delivered. Phase II North Wing, comprising a GFA of 63,356 sq.m., is currently under development, with completion expected in the fourth quarter of 2013 and Phase II South Wing is currently under planning, with completion expected between 2015 and 2017.
- Chongqing Manhattan City. We are developing this large-scale residential and retail community in Ba'nán District in Chongqing. This project is expected to include one of the largest shopping complexes in Chongqing with large indoor recreational facilities, featuring five uniquely themed retail streets. This project is expected to be constructed in five phases with a total GFA of approximately 2,604,661 sq.m. The construction and development of Phase I and a portion of Phase II, together comprising a GFA of 710,317 sq.m., has been completed, of which 479,559 sq.m. of residential properties have been sold and delivered. Phases III to V are expected to be completed in stages between 2014 and 2017.
- Chongqing Concord City. We are developing this large-scale integrated residential, retail, office and hotel project in the People's Liberation Monument area of Chongqing. This project is expected to have a total GFA of approximately 408,927 sq.m. and is expected to be completed between 2015 and 2017.
- Chongqing Global Twin Towers. We are developing this large-scale integrated residential, retail, office and hotel project conveniently located in Nan'an District in Chongqing. This project is expected to have a total GFA of approximately 1,947,900 sq.m., and is planned to feature one of the tallest buildings in the world at 528 meters tall as well as mixed-use retail and leisure space. This project is expected to be completed between 2015 and 2018.

In addition, we have been granted an option by Mr. Wong Sai Chung ("Mr. Wong"), our founder, managing director and controlling shareholder, to acquire a 50% equity interest in the project company that owns the rights to a proposed property development project on Xidan Street in Beijing (the "Beijing Concord Option"). The project is on a site area of over 80,000 sq.m. with a proposed GFA of approximately 347,595 sq.m., including over 130,000 sq.m. of retail space. The Beijing Concord Option is exercisable by us at any time before the expiry of 12 months after valid land use rights certificates to develop the whole property subject to the land grant contract have been granted.

We earn revenue primarily from the sales of our properties, particularly residential properties. In addition, we earn revenue by leasing our investment properties and by providing property management services to occupiers of our properties. In 2010, 2011, 2012 and the first six months of

2013, we recorded revenue of HK\$207.3 million, HK\$983.8 million, HK\$692.8 million and HK\$700.8 million, respectively, with sales of properties accounting for approximately 87.3%, 97.7%, 97.3% and 98.8%, respectively, of total revenue.

While we intend to continue to focus on our property sales business, we also seek to diversify by retaining an increasing proportion of our properties for investment purposes. We believe such diversification will broaden our revenue base and provide a source of recurring revenue that may be more stable than revenue from sales of properties, which may be more susceptible to market fluctuations and economic cycles.

Our Competitive Strengths

We believe we have the following competitive strengths:

- Our developments are situated in strategic locations;
- The large scale of our developments provides us with greater economies of scale, the ability to incorporate design features, and other advantages;
- We have benefited from incorporating into our development projects various design features, some of which we believe to be innovative in China, based on varying themes and concepts;
- Blue-chip tenant base and strong relationships with international business partners;
- Substantially all of the land in our existing portfolio is land that has already been cleared and for which there are no major relocation challenges; and
- We have a strong project management and design team and experienced senior management.

Our Business Strategies

Our key business strategies are:

- Seeking to achieve and maintain a diverse mix of sale and investment properties;
- Partnering with professional property management companies and securing long-term anchor tenants;
- Continuing to utilize pre-sale whenever possible when offering our properties for sale; and
- Selectively identifying land for future development, and acquiring land use rights primarily through private transactions.

General Information

Our Company was incorporated in the Cayman Islands on March 14, 2005 as an exempted company with limited liability and subsequently became the holding company of our Group. Our Group comprises eight material operating subsidiaries. Our shares have been listed on the Stock Exchange of Hong Kong Limited since February 23, 2007. Our place of business in Hong Kong is at 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong. Our registered office is at

Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our website is www.cpg-group.com. Information contained on our website does not constitute part of this offering circular.

THE OFFERING

The following summary is provided solely for your convenience. This summary is not intended to be complete. You should read the full text and more specific details contained elsewhere in this offering circular. For a more detailed description of the Notes, see “Description of the Notes.” Terms used in this summary and not defined shall have the same meanings given to them in Description of the Notes.

- Issuer China Properties Group Limited (the “Company”).
- Notes Offered. US\$150,000,000 aggregate principal amount of 13.50% Senior Notes due 2018 (the “Notes”).
- Offering Price. 99.117% of the principal amount of the Notes.
- Maturity Date October 16, 2018.
- Interest The Notes will bear interest from and including October 16, 2013 at the rate of 13.50% per annum, payable semi-annually in arrears.
- Interest Payment Dates April 16 and October 16 of each year, commencing April 16, 2014.
- Ranking of the Notes The Notes will be:
- 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;
 - *pari passu* with the 2007 Notes and the US\$300.0 Million Facility;
 - at least *pari passu* in right of payment with all unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
 - guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described under the caption “Description of the Notes — The Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral”;
 - effectively subordinated to secured obligations of the Company and the Subsidiary Guarantors (other than the 2007 Notes, the US\$300.0 Million Facility and Permitted *Pari Passu* Secured Indebtedness), to the extent of the value of the assets serving as security therefor; and
 - effectively subordinated to all existing and future obligations of the PRC Subsidiaries.

Subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral”, the Notes will be secured by the Collateral as described under the caption “Description of the Notes — Security” and will:

- be entitled to a first priority Lien on the Collateral (subject to any Permitted Liens) shared on a *pari passu* basis with the holders of the 2007 Notes, the lender under the US\$300.0 Million Facility and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness;
- 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); and
- rank effectively senior in right of payment to unsecured obligations of the Subsidiary Guarantor Pledgors to the extent of the Collateral charged by each Subsidiary Guarantor Pledgor 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. A Subsidiary Guarantee may be released in certain circumstances.

The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than those Restricted Subsidiaries organized under the laws of the PRC.

All of the initial Subsidiary Guarantors are holding companies or special purpose companies that do not have significant operations.

Any future Restricted Subsidiary (other than subsidiaries organized under the laws of the PRC) will provide a guarantee of the Notes as soon as practicable and in any event within 30 days after becoming a Restricted Subsidiary.

Ranking of Subsidiary

Guarantees The Subsidiary Guarantee of each Subsidiary Guarantor will be:

- a general obligation of such Subsidiary Guarantor;
- senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and

- at least *pari passu* in right of payment with all unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

Subsidiary Guarantees of each Subsidiary Guarantor Pledgor:

- will be entitled to a first priority Lien on the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor shared on a *pari passu* basis with the holders of the 2007 Notes, the lender under the US\$300.0 Million Facility and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant applicable law).

See “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral” and “Description of the Notes — Permitted *Pari Passu* Secured Indebtedness.”

Intercreditor Agreement . . . The Company, the Subsidiary Guarantor Pledgors, the Collateral Agent, the 2007 Notes Trustee on behalf of the holders of the 2007 Notes and the lender under the US\$300.0 Million Facility entered into an intercreditor agreement dated October 22, 2010 (the “Intercreditor Agreement”, as supplemented from time to time). On or prior to the Original Issue Date, the Trustee on behalf of the holders of the Notes will execute a joinder agreement to the Intercreditor Agreement to accede as a creditor to the Intercreditor Agreement. The Intercreditor Agreement will provide, among other things, that the security interests created over the Collateral will be shared on a *pari passu* basis among the holders of the 2007 Notes, the lender under the US\$300.0 Million Facility, the holders of the Notes and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness.

Optional Redemption . . . At any time and from time to time on or after October 16, 2016, the Company may redeem the Notes, in whole or in part, at the redemption prices set forth in “Description of the Notes — Optional Redemption,” plus accrued and unpaid interest to (but not including) the redemption date.

At any time prior to October 16, 2016, 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.

At any time prior to October 16, 2016, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more Equity Offerings at a redemption price equal to 113.5% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Repurchase of Notes
Upon a Change of
Control Triggering
Event

Upon the occurrence of a Change of Control Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

Redemption for Taxation
Reason

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

Covenants

The Notes, the Indenture 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 stock 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 Notes — Certain Covenants.”

Transfer Restrictions.	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”
Form, Denomination and Registration	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will be initially represented by a global note registered in the name of a nominee of a common depository for Euroclear and Clearstream.
Security Codes	ISIN: XS0941934944 Common Code: 094193494
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 Notes — Book-Entry; Delivery and Form.”
Delivery of the Notes	The Company expects to deliver the Notes against payment in same-day funds on or about October 16, 2013. You should note that initial trading of the Notes may be affected by the settlement date. See “Plan of Distribution.”
Trustee	Citicorp International Limited
Paying Agent and Transfer Agent	Citibank, N.A., London Branch
Collateral Agent	Citicorp International Limited
Registrar	Citigroup Global Markets Deutschland AG
Listing.	Approval in-principle has been received for the listing of the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum bond lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST.
Governing Law	The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York. The Security Documents are, or will be, governed by the laws of the British Virgin Islands or Hong Kong, as the case may be.
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.”

SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

You should read this summary in conjunction with our audited consolidated financial statements for the years ended December 31, 2011 and 2012 and our unaudited condensed consolidated financial statements for the six months ended June 30, 2013 and the notes thereto, which are included elsewhere in this offering circular. You should also read the section of this offering circular entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The summary consolidated financial information set forth below has been derived from our audited consolidated statements of financial position as of December 31, 2011 and 2012, our audited consolidated statements of comprehensive income and cash flows for the years ended December 31, 2011 and 2012. The summary financial data as of and for the financial year ended December 31, 2010 is derived from our audited consolidated financial statements as of and for the year ended December 31, 2011. The summary financial data as of June 30, 2013 and for the six months ended June 30, 2012 and 2013 is derived from our unaudited condensed consolidated statement of financial position as of June 30, 2013 and our unaudited condensed consolidated statements of profit or loss and other comprehensive income and cash flows for the six months ended June 30, 2013, included elsewhere in this offering circular. The consolidated financial information has been prepared in accordance with HKFRS. Our historical results of operations data are not necessarily indicative of the results to be expected for any other period.

	For the year ended December 31,			For the six months ended June 30,		
	2010	2011	2012	2012	2013	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	US\$'000
Consolidated statement of comprehensive income data:						
Revenue	207,262	983,785	692,760	285,846	700,791	90,355
Cost of sales	(54,970)	(626,734)	(429,980)	(167,698)	(382,887)	(49,367)
Gross profit	152,292	357,051	262,780	118,148	317,904	40,988
Other income, gains and losses.	52,144	27,996	53,587	12,838	14,996	1,933
Selling expenses	(4,288)	(39,942)	(34,470)	(10,087)	(18,385)	(2,370)
Administrative expenses	(61,612)	(104,434)	(99,233)	(63,011)	(54,985)	(7,089)
Profit from operation before changes in fair value of investment properties and conversion option derivative	138,536	240,671	182,664	57,888	259,530	33,462
Changes in fair value of investment properties	5,894,501	2,385,228	2,089,534	1,207,397	547,127	70,542
Changes in fair value of conversion option derivative	—	—	26,456	—	41,152	5,306
Profit before taxation	6,033,037	2,625,899	2,298,654	1,265,285	847,809	109,310
Income tax expense	(1,555,205)	(626,460)	(541,915)	(313,152)	(170,487)	(21,981)
Profit for the period attributable to the owners of the Company	<u>4,477,832</u>	<u>1,999,439</u>	<u>1,756,739</u>	<u>952,133</u>	<u>677,322</u>	<u>87,329</u>
Other comprehensive income						
Exchange differences arising on translation	1,272,196	1,441,742	649,121	206,278	639,254	82,421
Total comprehensive income for the period attributable to the owners of the Company	<u>5,750,028</u>	<u>3,441,181</u>	<u>2,405,860</u>	<u>1,158,411</u>	<u>1,316,576</u>	<u>169,750</u>
Other financial data:						
EBITDA ⁽¹⁾	141,484	243,614	211,740	59,219	301,925	38,928
EBITDA margin ⁽²⁾	68.3%	24.8%	30.6%	20.7%	43.1%	43.1%

(1) *EBITDA is calculated as profit before taxation and before changes in fair values gain of investment properties plus depreciation and amortization charges. EBITDA is not a standard measure under HKFRS or U.S. GAAP. 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 performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. 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 services and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes. Interest expense excludes amounts capitalized.*

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

	As of December 31,			As of June 30,	
	2010	2011	2012	2013	
	HKS'000	HKS'000	HKS'000	HKS'000	US\$'000
Consolidated balance sheet data:					
Non-current assets					
Property, plant and equipment	238,196	283,852	327,644	356,472	45,961
Prepaid lease payments	161,993	163,707	161,652	161,754	20,855
Investment properties	47,235,495	51,963,171	55,281,545	56,928,357	7,339,912
	<u>47,635,684</u>	<u>52,410,730</u>	<u>55,770,841</u>	<u>57,446,583</u>	<u>7,406,728</u>
Current assets					
Properties under development for sales	3,413,031	3,601,495	3,595,693	3,641,254	469,476
Properties held for sales	302,440	447,258	463,239	511,176	65,907
Trade and other receivables, deposits and prepayments	314,957	325,220	365,002	372,080	47,973
Tax recoverable	—	18,145	18,181	—	—
Pledged bank deposits	12,554	72,207	421,436	255,459	32,937
Bank balances and cash	796,730	1,192,134	48,771	434,262	55,990
	<u>4,839,712</u>	<u>5,656,459</u>	<u>4,912,322</u>	<u>5,214,231</u>	<u>672,283</u>
Current liabilities					
Deposits received on sales of properties	2,321,316	1,706,686	1,146,923	485,774	62,632
Construction costs accruals	434,778	576,456	465,245	500,537	64,535
Other payables and accruals	153,434	111,982	154,768	154,378	19,904
Amount due to a shareholder	167,189	1,456,696	103,559	251,302	32,401
Tax payable	665,250	679,895	755,907	780,256	100,600
Borrowings — due within one year	683,321	988,583	3,147,668	2,552,147	329,055
Fixed rate senior notes	—	—	—	797,311	102,799
	<u>4,425,288</u>	<u>5,520,298</u>	<u>5,774,070</u>	<u>5,521,705</u>	<u>711,926</u>
Net current (liabilities) assets	<u>414,424</u>	<u>136,161</u>	<u>(861,748)</u>	<u>(307,474)</u>	<u>(39,643)</u>
Total assets less current liabilities	<u>48,050,108</u>	<u>52,546,891</u>	<u>54,909,093</u>	<u>57,139,109</u>	<u>7,367,085</u>

	As of December 31,			As of June 30,	
	2010	2011	2012	2013	
	HKS'000	HKS'000	HKS'000	HKS'000	US\$'000
Non-current liabilities					
Borrowings — due after one year	3,016,650	2,716,642	577,181	1,913,556	246,719
Fixed rate senior notes	788,402	791,966	795,529	—	—
Convertible note	—	—	270,323	295,566	38,108
Conversion option derivative	—	—	244,844	203,692	26,263
Deferred tax liabilities	9,959,036	10,953,515	11,655,603	11,971,759	1,543,548
Loan from a shareholder	—	350,000	1,056,000	1,056,000	136,153
	<u>13,764,088</u>	<u>14,812,123</u>	<u>14,599,480</u>	<u>15,440,573</u>	<u>1,990,791</u>
	<u>34,286,020</u>	<u>37,734,768</u>	<u>40,309,613</u>	<u>41,698,536</u>	<u>5,376,294</u>

	For the year ended December 31,			For the six months ended June 30,		
	2010	2011	2012	2012	2013	
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	US\$'000
Net cash from (used in)						
operating activities	1,221,863	(529,625)	(385,649)	(292,344)	(304,922)	(39,314)
Net cash from (used in) investing activities	(1,094,252)	(317,943)	(369,827)	(224,706)	116,598	15,033
Net cash from (used in) financing activities	93,957	1,206,995	(394,145)	(422,214)	571,203	73,647
Cash and cash equivalents at end of the period	796,730	1,192,134	48,771	260,984	434,262	55,990

RISK FACTORS

This offering circular contains forward-looking statements relating to events that involve risks and uncertainties. Prospective purchasers of the Notes should carefully consider the risk factors set forth below, as well as the other information contained elsewhere in this offering circular. The risks described below are not the only ones that may affect our Company or the Notes. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, results of operations or financial condition. If any of the possible events described below occur, our business, results of operations or financial condition 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 are heavily dependent on the performance of the PRC property market, particularly in Shanghai, Chongqing and Beijing

All of our existing properties and development projects are located in Shanghai and Chongqing. We also have an option to acquire a 50% equity interest in a project company that owns the rights to a proposed property development project in Beijing under the Beijing Concord Option. As a result, the success of our business heavily depends on the continued growth of the PRC property market, particularly in Shanghai, Chongqing and Beijing. We cannot assure you that the demand for new properties in Shanghai, Chongqing and Beijing and other cities in China where we may operate or intend to expand will continue to grow or that prices will not deteriorate. In addition, fluctuations of supply and demand in the real estate market in China are caused by economic, social, political, regulatory and other factors that are outside of our control and we cannot assure you that there will not be over-supply of properties or an economic downturn in the property sector in Shanghai, Chongqing, Beijing and other cities of China. Any such over-supply or economic downturn may result in a slowdown in property sales or downward pressure on property prices regionally or nationwide. Any adverse development in the real estate market in Shanghai, Chongqing and Beijing or other cities in China where we may operate in the future could have a material and adverse effect on our business, results of operations and financial condition.

Our business is subject to extensive government regulation and, in particular, we are susceptible to policy changes in the PRC property sector

Our business is subject to extensive governmental regulation and the macroeconomic control measures implemented by the PRC government from time to time. As with other PRC property developers, we must comply with various requirements mandated by PRC laws and regulations, including the policies and procedures established by local authorities designated to implement such laws and regulations. In particular, the PRC government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, control of foreign exchange, property financing, property sales, taxation and foreign investment. Through these policies and measures, the PRC government may restrict or reduce land available for property development, raise benchmark interest rates of commercial banks, restrict the purchase of residential properties, place additional limitations on the ability of commercial banks to make loans to property developers and property purchasers, impose additional taxes and levies on property sales and restrict foreign investment in the PRC property sector. Restrictions imposed by the PRC government on

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

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 to such policies. We cannot assure you that the PRC government will not adopt additional and more stringent industry policies, regulations and measures in the future, nor can we assure you when or whether the existing policies will be eased or reversed. 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 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, results of operations and financial condition may be materially and adversely affected.

See “— Risks Relating to the Property Market in China” and “Regulations” for more risks and uncertainties relating to the extensive PRC regulations.

Our results of operations may fluctuate substantially due to changes in the fair value of our investment properties

Our investment properties consist of properties we hold for rental purpose and leasehold land used for the construction of properties for rental. As of each balance sheet date, the value of our investment properties is assessed by an independent property valuer based on their then current market values. Pursuant to Hong Kong Accounting Standards (“HKAS”) 40 on investment properties, which we have adopted, we recognize any net change in the fair value of our investment properties in our consolidated statement of comprehensive income as “changes in fair value of investment properties.” Changes in market values of our investment properties are beyond our control and any such changes will have an impact on our profit or loss. In 2010, 2011, 2012 and the first six months of 2013, we recognized changes in fair value of investment properties of HK\$5,894.5 million, HK\$2,385.2 million, HK\$2,089.5 million and HK\$547.1 million, respectively. If we increase our proportion of investment properties, the impact of such change in market values on our profit or loss may become even greater.

In addition, in accordance with HKFRS, the values of our properties held for sale and properties under development for sale (collectively, “properties for sale”) are assessed on a different basis than our investment properties. Our properties for sale are valued at the lower of cost and net realizable value, and as such, are not assessed based on their then current values, and accordingly, any changes in fair value of our properties for sale are not recognized. As a result, a change, or transfer, in the classification of a property between investment property and property for sale may result in a change in our profit for the relevant year. We make such transfers according to changes in our development plan, which are based on the investment return we expect to derive from the then current market conditions, as well as our expectation of future market conditions. However, the accounting treatment of transfers between investment properties and properties for sale is subject to HKFRS.

Changes in fair value of investment properties represent unrealized gains and losses and, as such, do not reflect our cash flow or liquidity positions. Furthermore, we cannot assure you that any surplus in fair value of investment properties can be realized at the same amount or at all or that declines in fair value will not cause us to incur net losses.

We have recorded, and may continue to record net current liabilities

As of June 30, 2013, we had net current liabilities of HK\$307.5 million, primarily reflecting borrowings due within one year and deposits received on the sale of properties. We may continue to record net current liabilities in the future, which could impact our ability to function as a going concern. If we do not generate sufficient cash flow from operations to meet our present and future financial obligations, we may not be able to continue to function as a going concern or may be exposed to certain liquidity risks, including the risk of defaulting on our borrowings and having to curtail our future development and expansion plans. We cannot assure you that we will be able to generate sufficient cash flow or obtain further financing through external borrowings or securities offerings on satisfactory terms or at all. As a result, our business, results of operations and financial condition may be materially and adversely affected.

It is difficult to predict our future performance because our revenue fluctuates significantly from period to period due in part to our revenue recognition policy and factors beyond our control

Our revenue, expenses, net income and results of operations have varied significantly in the past and may continue to fluctuate significantly from period to period in the future. In 2010, 2011, 2012 and the first six months of 2013, we recorded revenue of HK\$207.3 million, HK\$983.8 million, HK\$692.8 million and HK\$700.8 million, respectively. We recognize revenue from a sale of property only upon the earlier of the delivery of the property or the passing of the title to the purchaser. As a result of our revenue recognition policy, we recognize the majority of our revenue a significant time after the date of the pre-sale. We cannot predict with certainty the time of the completion and delivery of the property, and hence the time of the revenue recognition from any pre-sale, because the completion of any property development will vary according to its construction timetable and the time required to obtain the occupation permit. Further, the completion of any project development may be adversely affected by many factors, including adverse weather conditions, delays in obtaining requisite permits and approvals from relevant government authorities, as well as other factors beyond our control or other unforeseen events and circumstances. Any of these factors may affect the timing of completion of the property development, as well as our receipt of cash and the recognition of revenue from the project, and thus adversely affect our financial condition. We recognize costs relating to a property sold when the corresponding revenue is recognized, and accordingly, changes to our costs are subject to many of the same factors described above. In addition, as our revenue is derived principally from the sale of properties, we have a relatively small amount of recurring revenue and therefore our results of operations may fluctuate significantly. Such fluctuations may also adversely affect our cash flows and thus our ability to fund future projects. We therefore believe that period-to-period comparisons of our results of operations may not be as meaningful as they would be for a company with more stable recurring revenue.

We may not be able to obtain adequate financing to fund our land acquisitions and property projects

Property development projects are typically capital intensive and may require high levels of debt financing. Our available financial resources for implementing our projects may be inadequate and our project development may face cost overruns. The actual amount and timing of future capital requirements may differ from our estimates. If we decide to meet these funding requirements through debt financing, our interest obligations will increase and we may be subject to additional restrictive covenants, including restrictions on changes to our shareholding, constitution of board of directors and management. We also face refinancing risks if our lenders choose not to refinance our existing debt on acceptable terms or at all. In addition, we intend to retain an increasing proportion of the properties we develop in the future as investment properties, and as a result, our cash flows from

operations may decrease. If we decide to raise additional funds through the issuance of equity or equity-linked instruments, the interests of existing shareholders will be diluted. In addition, our ability to raise funds, either through equity or debt, is limited by certain restrictions imposed under PRC and Hong Kong law and the laws of the relevant foreign jurisdiction. We cannot assure you that in the future, we will be able to raise adequate capital in a timely manner and on acceptable terms or at all, particularly when the property market is depressed. Our failure to obtain adequate financing may result in the delay, change or abandonment of existing and future projects, which may materially and adversely affect our business, results of operations and financial condition.

Our cash flow may be affected by our long project development cycles, and we may not be able to complete our projects according to schedule or on budget

It usually takes years from the acquisition of a development site to the time we can pre-sell, sell or deliver our properties in the project to generate revenue and cash. As a result, our cash flow and liquidity may fluctuate significantly during the different stages of the property development process. In addition, properties are relatively illiquid compared to other types of investment products, and property prices tend to be volatile, particularly at times when the global and relevant local economies experience significant changes. As a result, the prices of our properties may experience significant fluctuations between the time we acquire the site and the time we pre-sell or sell the properties developed on such site.

Factors such as shortages of materials, equipment, technical skills and labor, adverse weather conditions, natural disasters, labor disputes, disputes with independent contractors and sub-contractors, accidents, changes in government priorities and policies, changes in government construction planning and other problems and circumstances beyond our control can increase the time needed and the substantial costs incurred to complete a project. Specifically, we may be materially and adversely affected because:

- our independent contractors, including designers and construction companies, may not be able to complete our projects on time, within budget, to our specifications and standards or at all, resulting in us compensating purchasers for late delivery of properties;
- we may not be able to obtain necessary governmental approvals or certificates for the development of our properties without delays or at all;
- we may not be able to obtain adequate working capital or other financing to complete construction on schedule; and
- disputes may arise among our contractors, including designers and construction companies, as to their obligations since we typically hire more than one contractor for each construction project.

The occurrence of factors such as those above could delay completion of our projects, thereby increasing our financing costs, penalties and other costs, and impairing or delaying our anticipated revenue, cash flow and profitability.

We are currently facing legal claims from some of our contractors and may face other claims from our purchasers and suppliers, and we may be involved in government proceedings

We may face claims by purchasers for failure to deliver properties according to the specifications and schedules stipulated in our sale and pre-sale contracts. Additionally, we may face claims from third parties such as suppliers and contractors during our ordinary course of business.

Third-party claims against us have primarily consisted of disputes over construction matters, disputes relating to design and landscape matters and disputes over sale and pre-sale contracts and tenancies. We are involved in litigation for an aggregate amount of approximately HK\$378.0 million in connection with disputes under certain construction contracts in the properties development operation during the normal course of business. No court decision or settlement has been reached with regard to these disputes. In addition, as a part of the litigation process, both we and the counterparties may apply for injunctions to guarantee the performance of future judgments arising from the pending litigation. In order to apply for an injunction, the moving party must deposit with the court an amount in cash, assets or other form of guarantee equal to the amount they wish to have frozen. In connection with such injunctions, we are restricted from disposing of a substantial portion of our assets in an amount of up to HK\$378.0 million, comprising cash and properties, primarily in Chongqing Manhattan City Phase I, pending the resolution of the litigation. This amount may increase or decrease significantly as the litigation proceeds, and we might be restricted from disposing of significant amounts of additional assets in the future in connection with this litigation. These disputes have delayed our application for the construction work completion inspection certificates for the disputed properties and our deliveries of pre-sold units in these properties to our customers, and may further delay the title registration of the relevant properties. If we are unsuccessful in pursuing our claims, we may be liable for the entire amount under dispute, the properties that have been frozen may be sold at auction to satisfy any related judgment, and we may need to hire replacement construction contractors at additional cost to perform additional construction before we are able to receive the construction work completion inspection certificates and deliver units in these properties. We may also face claims from customers to whom we have pre-sold affected units. See “— We face risks related to the pre-sale of properties, including the risk that property developments are not completed.” As a result, our business, results of operations and financial condition may be materially and adversely affected.

In addition, there can be no assurance that we will not be involved in a larger number of proceedings or that such proceedings will not have larger amounts in controversy in the future or that the outcome of these proceedings will not materially and adversely affect our business, results of operations or financial condition.

We are regulated by various government authorities in China. If any PRC government authority believes we or any of our suppliers or contractors are not in compliance with PRC regulations, it could shut down or delay our construction or sales operations, refuse to grant or renew construction approvals or licenses, institute legal proceedings to seize our properties, enjoin future actions or assess civil and/or criminal penalties against us, our officers or our employees. Any such action by a PRC government agency would have a material adverse effect on our business. If we are found to have not complied with, or in the future do not comply with, all applicable PRC laws and regulations, our business, results of operations and reputation may be materially and adversely affected.

Our business depends on the continuing efforts of our key management personnel

Our success depends substantially on the expertise and experience of our key management personnel, including Mr. Wong. Mr. Wong is our founder, managing director and our indirect controlling shareholder. He has been and is expected to remain in control of our overall policy and management. We do not maintain key-man life insurance for any of our key management personnel. If Mr. Wong or any of our other key management personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all. The loss of services of Mr. Wong or any other key management personnel in the absence of suitable replacements could have a material adverse effect on our operations, financial condition and results of operations.

Our future growth prospects may be affected if we are unable to identify suitable properties or acquire properties at commercially acceptable prices

We believe that identifying and acquiring a suitable portfolio of properties for future development is critical to sustain our growth. There can be no assurance that we will be able to identify and acquire attractive sites in the future. In addition, as there is often a significant passage of time between identifying property, acquiring property and delivering possession, there is a risk that our development projects may no longer be strategically located by the time of their completion or the time they are sold and delivered. There is also no assurance that we will exercise any of our rights to acquire any interest in the projects subject to the Beijing Concord Option or the other option agreement entered into on February 8, 2007, pursuant to which we may acquire certain of Mr. Wong's other interest in properties in the PRC (the "General Option"), or that any such sites will develop into profitable developments if we decide to exercise these rights. In addition, there is no guarantee that we will be able to acquire such sites on favorable terms, obtain the necessary land use rights or obtain the necessary PRC government approvals to proceed with any such proposed developments projects. Our inability to identify and acquire attractive new sites could impair our ability to compete with other property developers, which in turn may materially and adversely affect our business, results of operations and financial condition.

In China, the supply of substantially all property development sites is controlled by governmental authorities, and our ability to acquire land use rights and the acquisition costs of such land use rights will be affected by government policies towards land supply, development and pricing. The central and local governments may regulate the means by which property developers obtain land for development. The Shanghai, Chongqing and Beijing municipal government and the PRC central government have introduced regulations requiring that land use rights for most residential and commercial-use property development be sold through public tender, auction or listing for sale conducted by local land authorities. This has contributed to an increase in the cost of land acquisition by property developers throughout China. In addition, the PRC central and local governments may also control the supply of land available for development in Shanghai, Chongqing, Beijing and other major PRC cities in which we seek to develop projects. If we are unable to acquire land use rights in China at suitable prices or at all, our business, results of operations and financial condition may be materially and adversely affected.

We are controlled by Mr. Wong, our managing director and controlling shareholder, whose interests may differ from the holders of our Notes

Mr. Wong has significant influence and control over our business plans and strategies (i) as our managing director, (ii) through his ownership of Hillwealth Holdings Limited, our controlling shareholder, and (iii) through Dr. Wang Shih Chang, George, our chairman, who is the brother of Mr. Wong and Mr. Wong can exercise his voting rights to control the election of our board of directors and any vote in our shareholders' meetings. Mr. Wong's majority ownership and control of our Company might also delay or prevent a change in control, which could in turn reduce the market price of the Notes. Furthermore, we entered into three loan agreements with Mr. Wong with a total amount of HK\$1,200.0 million which is repayable after 18 months from December 31, 2012. In addition to shareholder loans, from time to time we have received advances from Mr. Wong. As of June 30, 2013, the amount due to Mr. Wong under these advances is HK\$251.3 million which is repayable upon demand. Therefore, Mr. Wong has significant influence and control over us and may exercise his control in ways that conflict with the interests of the holders of our Notes. Mr. Wong has entered into a deed of undertaking under which he has agreed, subject to certain exceptions, not to engage in directly or indirectly any property development business in the PRC as long as he remains our controlling shareholder and while our shares are listed on the Hong Kong Stock Exchange.

Pursuant to the exceptions to the deed of undertaking, Mr. Wong maintains direct and indirect interests in other companies outside our Group that are engaged in property development and investment projects in China and other parts of Asia. Some of these companies may compete directly with our existing property development and investment businesses, including for the acquisition of development sites or other properties, financing, design and development talent, construction contractors, customers, management personnel and resources, as well as Mr. Wong's efforts and attention.

We cannot assure you that the deed of undertaking will be adequate or effective in protecting the interests of the holders of our Notes. If Mr. Wong fails to comply with the deed of undertaking, or if the deed of undertaking is altered in a manner which is unfavorable to us or determined to be unenforceable, any competition between our business and Mr. Wong's other competing businesses could adversely affect our growth, results of operations and financial condition. There can be no assurance that Mr. Wong will direct any future business opportunities to us or, as our controlling shareholder and our managing director, cause us to take up such opportunities.

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

We pre-sell properties before construction is completed. The purchasers of our properties may need mortgage loans to purchase our properties, and we typically arrange for various banks to provide these mortgage loans. In accordance with market practice, the mortgagee banks require us to guarantee our customers' mortgage loans. Typically, our guarantee obligations for such customers' mortgage loans are released upon the earlier of (i) the satisfaction of the mortgage loan by the purchaser of the property; and (ii) the issuance of the property ownership certificate for the mortgaged property and the completion of the registration of the mortgage. If a purchaser defaults on a mortgage loan guaranteed by us, we may have to repay the mortgage loan. If we fail to do so, the mortgagee bank may foreclose the underlying property and recover any balance from us as the guarantor of the defaulted mortgage loan. In line with industry practice, we rely on the credit analysis performed by the mortgagee banks in respect of individual customers and we do not conduct any independent credit checks on them.

As of December 31, 2010, 2011, 2012 and June 30, 2013, we had guaranteed mortgage loans in the aggregate outstanding principal amount of HK\$1,745.7 million, HK\$1,917.6 million, HK\$1,386.4 million and HK\$1,647.7 million, respectively. We did not experience any instances of default by purchasers of our properties for whom we had guaranteed mortgage loans in 2010, 2011, 2012 and the first six months of 2013. However, we cannot assure you that there will not be any default in the future and if we are required to honor our guarantees, our results of operations and financial condition may be materially and adversely affected.

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

We face risks relating to the pre-sale of properties. For example, we may fail to complete a fully or partially pre-sold property development, in which case we could find ourselves liable to purchasers of pre-sold units for losses suffered by them. There can be no assurance that these losses would not exceed the purchase price paid in respect of the pre-sold units. In addition, if a pre-sold property development is not completed on time, the purchasers of pre-sold units may be entitled to compensation for late delivery. If the delay extends beyond the contractually specified period, these purchasers may even be entitled to terminate the pre-sale agreements and claim damages. In 2011 and 2012, we experienced late deliveries of properties and had paid related compensation to

purchasers to reschedule deliveries of properties amounting to approximately 0.04% of our total assets as of June 30, 2013. We cannot ensure 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. Also, proceeds from the pre-sale of our properties are an important source of financing for our property developments. Consequently, 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 result in our need to seek alternative means to finance the various stages of our developments. This, in turn, could have an adverse effect on our cash flow, business, results of operations and financial condition.

We may have to compensate our customers if we fail to deliver individual property ownership certificates in a timely manner

According to the relevant PRC law, property developers must meet various requirements within 90 days after the delivery of a pre-sold property, 90 days after the sales and purchase agreement of the completed property is concluded or such other time period that may be provided in the relevant sales and purchase agreement to assist a purchaser in obtaining the individual property ownership certificate. We generally elect to specify the deadline to apply for an individual property ownership certificate in the sales and purchase agreement to allow sufficient time for the application and approval process. Following the effective date of a sales and purchase agreement for one or more units in a development, we then assist the purchaser to apply for an individual property ownership certificate for each unit. This involves submission of documents, including the sales and purchase agreement, identification documentation for the purchaser, evidence of payment of deed tax and other necessary certificates. Delay by a purchaser in providing the documents relating to the purchaser, or delay by the various administrative authorities in reviewing the relevant application document, as well as other factors beyond our control, may affect timely delivery of the relevant individual property ownership certificate. Under current PRC laws and regulations and under our sales and purchase agreements, we are required to compensate our customers for delays in delivery caused by us of individual property ownership certificates. Significant delays in obtaining property ownership certificates with respect to our developments may materially and adversely affect our business, results of operations and financial condition.

We have a limited ability to control the maintenance and upkeep of our developments for sale after they are sold and delivered and the quality and image of our properties may suffer

We have a limited ability to control the maintenance and upkeep of our developments for sale after they are sold and delivered. In particular, although we generally manage our residential properties for an initial period of two years after delivery, owners of such properties have the right to appoint another property management company. In addition, we intend to engage professional hotel management companies to manage our hotels in Shanghai Concord City. We also plan to engage third-party property management companies to manage some of our retail properties in Shanghai Concord City. If such third-party professional companies do not manage our properties in accordance with the terms of our respective agreements with them, our reputation would likely suffer. Furthermore, if we rely on professional management companies to manage our properties, we may not be in a position to identify or resolve potential issues that may arise in relation to our properties. Any damage to our reputation and our brand could affect our ability to attract purchasers to our development projects and future projects, which could cause us to lose market share and suffer reduced revenue and profits.

Our insurance coverage may be inadequate to cover potential liabilities

We do not carry comprehensive insurance against all potential losses or damages with respect to our properties before their delivery to customers. We have purchased insurance policies to cover property damage for certain of our properties to the extent required under certain of our financing agreements. However, there are certain types of losses, such as losses from natural disasters, terrorist attacks, construction delays and business interruptions for which insurance is either not available or not available at a reasonable cost. In addition, our contractors typically do not maintain insurance coverage on our projects under construction. Therefore, we are not fully covered for all potential losses, damages and liabilities which, if they were to occur, may result in the interruption of our business, the loss of our capital and the loss of anticipated revenue. Any future loss that is not fully covered by insurance could significantly reduce our cash and cash equivalents available for working capital purposes and materially and adversely affect our results of operations and financial condition.

We rely on independent contractors to provide property development products and services

We engage independent third-party contractors to provide significant property development services, including construction, piling and foundation, building and property fitting-out work, interior decoration and installation of air-conditioning units and elevators. Our projects are usually undertaken by independent contractors selected through invitation and all contracts typically do not allow these independent contractors to sub-contract all or significant portions of the work unless our prior approval has been obtained. There can be no assurance that the services rendered by any such independent contractor or any subcontractor will be completed in a timely manner or of satisfactory quality. If these services are not timely or of acceptable quality, we may incur significant time and costs to seek for remedy through litigation or other legal process, incur substantial costs to complete the projects and remedy any defects and our reputation could be significantly harmed. We are also exposed to the risk that a contractor may require additional funds in excess of the fixed cost to which they committed contractually and we may have to bear such additional amounts. Furthermore, any contractor that experiences financial or other difficulties, including labor disputes with its employees, may be unable to carry out construction or related work, resulting in a delay in the completion of our development projects or resulting in additional costs. We cannot assure you that such problems with our contractors will not occur in the future. We believe that any problems with our contractors, individually or in the aggregate, may materially and adversely affect our financial condition, results of operations or reputation.

Our business may be adversely affected if we fail to obtain or maintain the required qualification certificates, including the existing interim qualification certificates

All property developers must obtain a PRC qualification certificate to operate in the property development business in China. According to the Provisions on Administration of Qualification of Real Estate Developers (《房地產開發企業資質管理規定》) (the “Provisions on Administration of Qualifications”) all newly established property development corporations or entities must first apply for a PRC interim qualification certificate, which is valid for one year. Such certificate may be extended up to a maximum of two years with the approval of the relevant real estate development administration authority. An application for a formal qualification certificate must be made one month before the interim qualification certificate expires. If the property developer has, at the time of such application, complied with all relevant regulations and requirements, including the conditions applicable to the interim qualification certificate, and has property development projects under construction, the formal qualification certificate is usually granted. According to the Provisions on Administration of Qualifications, the maximum amount of the fine for operating

property development business without a valid interim or formal certificate shall be RMB100,000. Chongqing Ace Blossom Real Estate Co., Ltd. and Chongqing Yangtze-Jialing Rivers Real Estate Co., Ltd. are applying for or renewing their respective qualification certificates. There can be no assurance that any registration or applications for an extension, renewal or formal certificate will be successful. If any such registration, extension, renewal or formal certificate is not obtained for any reason, our operating subsidiaries may be required to pay a fine or our business licenses may be revoked, which could prevent us from continuing our operations. As a result, our business, results of operations and financial condition may be materially and adversely affected.

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

The property development industry in the PRC is heavily regulated by the PRC government. PRC property developers must comply with various requirements mandated by the laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations.

In order to develop and complete a property development, a property developer must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of the property development, including land use rights certificates, project approval, environmental impact assessment approval, construction land planning permits, construction work planning permits, construction work commencement permits, pre-sale permits and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions. There can be no assurance that we will not encounter major problems in fulfilling the conditions precedent to any approvals required for our development projects, or that we will be able to adapt ourselves to new laws, regulations or policies that may come into effect from time to time with respect to the property development industry in general or any particular processes with respect to the granting of approvals for our development projects. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. If we encounter any difficulties or experience any delay in obtaining any required approvals for our development projects, we may not be able to develop or complete a development project according to schedule and may incur additional costs beyond original planning, which may adversely and materially affect our business, results of operations and financial condition.

Our profitability and results of operations are affected by changes in interest rates

Changes in interest rates have affected and will continue to affect our financing costs and, ultimately, our results of operations. In April 2006, the People's Bank of China (中國人民銀行) ("PBOC") raised the benchmark one-year lending rate from 5.58% to 5.85% and in August 2006 further increased such rate to 6.12%. The PBOC again increased the one-year lending rate six times in 2007 from 6.12% to 7.47% in December 2007. Beginning in 2008, the PBOC decreased the benchmark one-year lending rate five times, from 7.47% to 5.31% in December 2008, which remained unchanged until October 2010. The one-year lending rate was increased to 5.81% effective from December 26, 2010, 6.06% effective from February 9, 2011, 6.31% effective from April 6, 2011 and 6.56% effective from July 7, 2011, although the PBOC subsequently lowered the one-year benchmark interest rate by 25 basis points in June 2012 and by 31 basis points in July 2012. As commercial banks in China link the interest rates on their loans to benchmark lending rates published by the PBOC, any further increase in such benchmark lending rates will increase the interest costs for our property developments. A substantial portion of the interest expense has been capitalized, and will then be recognized in the consolidated statements of comprehensive income as

cost of sales upon the sale of properties. Such capitalized interest expense may adversely affect our gross profit margin upon the sales of properties in future. In addition, increases in interest rates may affect our customers' ability to secure mortgages on acceptable terms, which in turn may affect their ability to purchase our properties.

Resettlement process may result in additional costs or cause delays to our development projects

On March 16, 2007, the National People's Congress of China adopted the Property Rights Law, which expressly provides legal protection of the private rights of homeowners. This may increase the difficulties in effecting demolition and resettlement through administrative intervention, and the cost of demolition and resettlement for our property development projects may increase.

In January 2011, the State Council promulgated the Rules for the Expropriation of Buildings on State-owned Land and Compensation (the "Expropriation Rules") which regulate the expropriation of buildings on State-owned land by the relevant land authority and the corresponding compensation to the owners of the expropriated buildings. In the event that the buildings on the State-owned land are expropriated for reasons of public interest, the owners of the expropriated buildings should be compensated. The Expropriation Rules specify the scope of compensation and the rights of the owners of the expropriated buildings, such as the right to take part in the hearing.

If the housing expropriation department and the party with housing being expropriated fail to reach an agreement for compensation and resettlement, the housing expropriation department shall request the relevant governmental authorities to make a compensation ruling. If the party with housing being expropriated is not satisfied with the ruling, it may initiate proceedings in a people's court or apply for an administrative reconsideration, which may cause delays in the development projects. Such proceedings and delays, if any, could adversely affect our development schedule, which could, in turn, lead to cost increases and delayed investment returns, and as a result, materially and adversely affect our business, financial condition and results of operations.

We may not be able to leverage our experience in Shanghai and Chongqing to expand to other cities in China

In 2010, 2011, 2012 and the first six months of 2013, we derived all of our revenue from development projects in Shanghai and Chongqing. We may expand to other cities in China. For example, we may expand to Beijing through the exercise of the Beijing Concord Option at any time before the expiry of 12 months after valid land use rights certificates to develop the whole property subject to the land grant contract have been granted. These cities may differ from Shanghai and Chongqing in terms of the level of economic development, topography, culture, regulatory practices, familiarity with contractors and business practices and customs, customer tastes, behavior and preferences. Accordingly, our experience in Shanghai and Chongqing may not be applicable to other cities. In addition, when we enter new markets and geographical areas, it is likely that we will compete with local developers who have an established local presence, are more familiar with local regulatory and business practices and customs and have stronger relationships with local contractors, all of which may give them a competitive advantage over us. Failure to leverage our experience or failure to understand the property market in any other city in China which we target for expansion may have a material adverse effect on our financial condition or results of operations. Furthermore, if we are unsuccessful in our endeavors outside Shanghai and Chongqing, our confinement to the Shanghai and Chongqing markets over the longer term may constrain our development and prospects.

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

The global 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. Continued concerns about sovereign debt in certain European countries and slumping growth in other parts of the world could lead to another global economic downturn or financial market crisis.

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely affected, and may continue adversely affecting, homeowners and potential property purchasers, which may lead to a decline in the general demand for our products and erosion of their sale 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 crisis continue, our business, results of operations and financial condition may be materially and adversely affected.

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 property 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, the inability to retain tenants or find new tenants and the costs resulting from periodic maintenance, repair and re-letting. Therefore we cannot assure you that we can achieve the planned investment return on long-term property investments on a timely manner or at all.

We are susceptible to increases in the cost of labor and construction materials

Construction and development costs account for the majority of our cost of sales and are one of the significant factors affecting our financial condition. In general, our labor and construction materials costs are included in the contract fee payable to our contractors, who are generally responsible for procuring the required labor and construction materials. Nonetheless, we agree to bear certain of the increased costs when the prices of the labor and construction materials exceed a certain threshold. Due to the rapid growth in the property development industry in recent years in the PRC, wages for construction workers and the prices of construction materials and building equipment have substantially increased. We believe this will help us limit project cost overruns because we are not required to increase the contract fee or re-negotiate other terms in case of significant fluctuations of wages and construction materials prices. However, we cannot assure you that we will continue to be able to enter into contracts with similar pricing terms in the future, which will, in part, be affected by market practices which are beyond our control. Furthermore, there can be no assurance that our contractors will actually complete their contract performance without any

fee adjustment, or at all, or that we can find replacement contractors at the same fee if wages and construction materials prices continue to increase. Should our contractors fail to perform their obligations under a respective contract as a result of increases in labor cost or construction materials prices or otherwise, we may incur significant litigation costs and replacement costs, which would materially and adversely affect our business, prospects, financial condition and results of operations. In addition, as it normally takes years to complete a property development project, we often enter into multiple contracts sequentially for different phases or sub-phases of a project, which could have different unit fees because of the fluctuations of wages and construction materials prices. If we are unable to pass on any increase in the cost of labor and construction materials to either our contractors or our customers, our results of operations and financial condition may be adversely affected by the cost volatility of labor and construction materials.

The expected completion dates and GFA of our properties under development and properties held for future development are subject to change

We have included in this offering circular the expected completion dates and GFA of our properties under development and properties held for future development. The expected completion dates of these properties are subject to a number of uncertainties, including changes in the regulatory and economic environment and the performance of our business partners, many of which are beyond our control. See “ — Our cash flow may be affected by our long project development cycles, and we may not be able to complete our projects according to schedule or on budget.” The GFA figures of our properties under development and properties held for future development are based on government documents issued at various stages of the property development process, where available. We cannot assure you that government documents issued at later stages of the property development process will not contain different GFA figures or that our property development projects will not have different GFA figures when completed.

Any failure to protect our brand, trademarks and other intellectual property rights could have a negative impact on our business

We believe our brand, trademarks and other intellectual property are integral to our success. We believe the success of our business depends in part on our continued ability to use and promote our brand and trademarks. While we rely on the intellectual property laws in the PRC to protect our intellectual property, any unauthorized use of such intellectual property could adversely affect our business and reputation. Historically, China has not protected intellectual property rights to the same extent as certain other countries do, and infringement of intellectual property rights continues to pose a serious risk to doing business in China. Moreover, monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brand, trademarks and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. Any litigation or dispute in relation to our brand, trade names or trademarks could result in substantial costs and the diversion of resources. Furthermore, the application of laws governing intellectual property rights in China is uncertain and evolving and if we are unable to adequately protect our brand, trademarks and other intellectual property, we may lose these rights and our business, results of operations and financial condition may be materially and adversely affected.

Our LAT provisions may not be sufficient to meet our LAT obligations

In accordance with the provisions of the Provisional Regulations of the People’s Republic of China on Land Appreciation Tax (“LAT”) (《中華人民共和國土地增值稅暫行條例》) and the related implementation rules, all entities and individuals that receive income from the sale or transfer of

land use rights, buildings and ancillary facilities are subject to LAT at progressive rates ranging from 30% to 60% of the appreciated value of such properties. 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 resort villages. According to the Implementation Rules of Provisional Regulations of the PRC on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例實施細則》), if a company is unable to calculate the LAT on its revenue from the sale of a property prior to completion, the LAT may be levied in advance. After the construction and the clearing of accounts of the property is completed, a thorough calculation will be conducted on the revenue received. The excess LAT paid in advance will be refunded to the company. If there is any shortfall, the company will have to pay the outstanding LAT.

The State Taxation Bureau clarified LAT settlement to some extent in its Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (《關於房地產開發企業土地增值稅清算管理有關問題的通知》) effective February 1, 2007. The Notice clarifies that provincial and local tax bureaus may formulate their own implementing rules and determine how LAT will be settled in their jurisdictions.

In accordance with the Notice of the State Administration of Taxation on Further Improving the Collection of Land Value-added Taxes (《國家稅務總局關於進一步做好土地增值稅徵管工作的通知》) issued by the State Administration of Taxation on June 20, 2013, efforts shall be made on the settlement of land value-added tax. The key area such as settlement shall be properly done in 2013. Any items that were left behind over the past few years but have not yet been settled shall be cleared up comprehensively. Enterprises are urged to carry out settlement on their own within the given time. Those enterprises that refuse to carry out settlement shall be dealt with in a serious manner. The assessment and collection regulations shall be strictly implemented and the scope of assessment and collection shall not be expanded without authorization. It is firmly stated that no assessment and collection shall be made for those enterprises that do not meet the conditions of assessment and collection. For those enterprises that meet the conditions and need for assessment, the assessment and collection rate shall be determined strictly according to the actual situation and no uniform approach shall be adopted in this regard. On the basis that the State Administration of Taxation has already conducted supervision in fifteen provinces, it also began supervision in other provinces including Chongqing starting from July 2013.

We prepay LAT in respect of our pre-sale proceeds and make provisions for the estimated amount of LAT that may be payable in respect of our other sales. We cannot assure you that the relevant tax authorities will agree with our calculation of LAT liabilities nor can we assure you that the LAT provisions will be sufficient to cover our LAT obligations in respect of our past LAT liabilities. If the relevant tax authorities determine that our LAT liabilities exceed our LAT prepayments and provisions, and seek to collect that excess amount, our business, results of operations and financial condition may be materially and adversely affected.

The financial effects of the convertible note are uncertain

Our Company issued a HK\$500.0 million convertible note on August 14, 2012 (the “2012 Convertible Note”) to a company wholly owned by Mr. Wong, at whose option the 2012 Convertible Note may be converted into shares of our Company. The 2012 Convertible Note contains both liability and conversion option derivative components that are required to be separately accounted for in accordance with HKAS 39 “Financial instruments: Recognition and measurement.” Estimating the fair value of the conversion option derivative requires the input of highly subjective assumptions, such as share price volatility. As a result, the determination of and resulting changes in

such fair value may affect our overall financial condition and results of operations. In the first six months of 2013, we recognized changes in the fair value of the conversion option derivative of HK\$41.2 million, and as of June 30, 2013, the fair value of the conversion option derivative was HK\$203.7 million.

The total GFA of some of our property development projects may exceed the original permitted GFA and the excess GFA is subject to governmental approval and payment of additional land premium

The permitted total GFA for a particular property development is set out in various government documents issued at various stages. In many cases, the underlying land grant contract will specify permitted total GFA. Total GFA is also set out in the relevant urban planning approvals and various construction permits. If constructed total GFA exceeds the permitted total, or if the completed development contains built-up areas that the authorities believe do not conform to the approved plans as set out in relevant construction works planning permit, we may not be able to obtain the acceptance and compliance form of construction completion for the development, and as a consequence, we would not be in a position to deliver individual units to purchasers or to recognize the related pre-sale proceeds as revenue. Moreover, excess GFA requires government approval and the payment of additional land premium. We may also be liable to purchasers under our sales and purchase agreements.

We cannot assure you that the constructed total GFA for each of our existing projects under development or any future property developments will not exceed permitted total GFA for that development, or that the authorities will not determine that all built-up areas conform to the plans approved as set out in the construction permit. Moreover, we cannot assure you that we would have sufficient funding to pay any required additional land premium or to pay for any corrective action that may be required in a timely manner, or at all. Any of these circumstances may materially and adversely affect our business, results of operations and financial condition.

Risks Relating to the Property Market in China

The performance and development of the PRC property market are volatile and subject to the PRC government policies

We are subject to property market conditions in China, particularly in Shanghai and Chongqing. The PRC property market is volatile and may experience oversupply and property price fluctuations, which may in turn adversely affect our business. The Shanghai and Chongqing property markets have been subject to substantial fluctuations in recent years, in part due to the adoption of new economic policies and the occurrence of socio-economic events. We cannot assure you that these events will not result in government intervention in the property market in China, which in turn may adversely affect the growth and stability of our industry.

Furthermore, the PRC government has recently introduced certain new policies which are intended to cool down the property market and emphasized the government's determination to strictly enforce regulatory and macro-economic measures, which include, among other things, (i) home purchase restrictions, (ii) increased down payment requirement for second residential-properties purchase, (iii) suspending mortgage financing for third or above residential-properties purchase and (iv) 20% individual income tax rate applied to the gain from the sale of properties. For further details, see "Regulations".

The central and local governments make policy adjustments from time to time and adopt new regulatory measures in an effort to control the development of the property market in China. We cannot assure you that the PRC government will not change or modify these measures in the future. The adoption of such policies and measures may lead to changes in market conditions, including price instability and imbalance of supply and demand of residential properties, all of which may affect the property markets throughout China in ways that we cannot predict, which in turn may materially and adversely affect our business and financial condition. Also, there can be no assurance that there will not be actual or perceived overdevelopment in the property sector in Shanghai, Chongqing and other parts of China that may result in an actual or perceived oversupply of properties and a decrease in property prices in markets in which we operate, which could be sudden and substantial, any of which could adversely affect our business and financial condition. In addition, the property market in some cities in China has been cyclical in recent years. We cannot assure you that significant declines will not take place in the Shanghai and Chongqing property markets or other markets in which we may operate in the future.

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

Substantially all purchasers of our residential properties rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of residential properties. In addition, the PRC government has suspended mortgage financing for purchasers who have purchased two or more properties since September 2010. The PRC government and commercial banks may also increase the down payment requirement, impose other conditions or otherwise change the regulatory framework in a manner that would limit or reduce the availability or attractiveness of mortgage financing to potential property purchasers and many of our prospective customers may not be able to purchase our properties. Furthermore, press reports and other market rumors of such policies and regulations have had the effect of limiting or reducing the availability or attractiveness of mortgage financing and may continue to have such effect, thereby delaying purchases of our properties by prospective customers. Any inability or delay in purchasing our properties may materially and adversely affect our business, results of operations and financial condition.

We face increasing competition which could adversely affect our business and financial condition

In recent years, a large number of property developers have begun to undertake property development and investment projects in China. In addition, a number of international developers have expanded their operations into China, including a number of leading Hong Kong and Singapore property development and investment groups. Many of these developers, both private and state-owned, have greater financial, managerial, marketing and other resources than we do, as well as more experience in property and land development. Competition between property developers is intense and may result in, among other things, increased costs for the acquisition of land for development, excessive demand for properties in certain parts of China, an increase in property prices, a slowdown in the rate at which new property developments will be approved and/or reviewed by the relevant government authorities, an increase in construction costs and difficulty in obtaining high quality contractors and qualified employees. Any such effect may adversely affect our business, results of operations and financial condition. In addition, the property market in China is rapidly changing. If we cannot respond to changes in market conditions more swiftly or effectively than our competitors do, our ability to generate revenue, our financial condition and our results of operations will be adversely affected.

The property industry in China is still at a relatively early stage of development, and there is a significant degree of uncertainty in the market as a whole

Private ownership of property in China is still at a relatively early stage of development. Demand for private residential property has been increasing rapidly in recent years. However, increased demand has often been coupled with volatile market conditions and fluctuations in prices. Numerous factors may affect the development of the market and accordingly, it is very difficult to predict when and how much demand will develop. Limited availability of accurate financial and market information and the general low level of transparency in China contribute to overall uncertainty. Investors may be discouraged from acquiring new properties due to the lack of a liquid secondary market for residential properties. In addition, the limited amounts and types of mortgage financing available to individuals, together with the lack of long-term security of legal title and enforceability of property rights, may also inhibit demand for residential property. Finally, the risk of over-supply is increasing in parts of China where property investment, trading and speculation have become more active. If as a result of any one or more of these or similar factors, demand for residential property or market prices decline significantly, our business, results of operations and financial condition may be materially and adversely affected.

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

The PRC government imposes restrictions on foreign investment in the property sector to curtail the overheating of the property sector by, among other things, increasing the capital and other requirements for establishing foreign-invested property enterprises, tightening foreign exchange control and imposing restrictions on purchases of properties in China by foreign persons.

On July 11, 2006, the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) (“MOHURD”), MOFCOM, the National Development and reform Commission of the PRC (中華人民共和國國家發展和改革委員會) (“NDRC”), PBOC, the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) (“SAIC”) and SAFE jointly issued the Opinions 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》) (the “171 Opinions”). According to the 171 Opinions, foreign institutions or individuals who purchase properties not for their own use in China should follow the principle of “commercial presence” and apply for the establishment of foreign-invested enterprises pursuant to the regulations on foreign investment in properties. After obtaining the approvals 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. For the establishment of a foreign-invested real estate enterprise (“FIREE”), the MOFCOM authorities and the SAIC authorities will be responsible for the approval and registration of the FIREE and the issuance of a temporary Approval Certificate for a Foreign-invested Enterprise (which is effective for one year) and a temporary business license. Upon full payment of the land premium for the land use rights, the FIREE should apply for the “Certificate of Land Use Rights”. With such Certificate of Land Use Rights, the real estate developer can obtain a formal Approval Certificate for a Foreign-Invested Enterprise from the MOFCOM authorities and a formal business license with the same approved business term as the formal Approval Certificate for a Foreign-Invested Enterprise from the SAIC authorities. Where the total investment amount of a foreign-invested real estate enterprise is US\$10 million or more, its registered capital shall be no less than 50% 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.

In May 2007, MOFCOM and SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision of Foreign Direct Investment in the Property Sector (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》), which among other things, provides that:

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

On June 18, 2008, the MOFCOM issued the Notice on Properly Archiving the Filings for Foreign Investment in Real Estate Sector (《關於做好外商投資房地產業備案工作的通知》). The notice requires that the establishment (including the increase of registered capital) of a FIREE must comply with the principle of one project company engaging in one approved real estate project only. After approving certain issues regarding foreign investment in real estate (including establishment of enterprises, capital increase, share increase, transfer of share ownership and mergers and acquisitions), the local commerce authorities submit the materials originally reported to the Ministry of Commerce for record to the provincial commerce authorities for checking. The provincial competent commerce authorities together with the relevant provincial departments check the said materials. Where the materials conform to the provisions, the provincial competent commerce authorities submit the relevant materials to the MOFCOM for filing.

Moreover, in November 2010, MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into Real Estate Industry (《關於加強外商投資房地產業審批備案管理的通知》), which provides that, among other things, the local MOFCOM authorities are not permitted to approve investment companies by foreign investors to engage in the real estate development and management.

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

The PRC government may impose fines or other penalties on us if any of our projects are not developed in compliance with the terms of the land grant contracts

Under 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 the payment of fees and land premium, designated use of land, amount of GFA developed, time for commencement and completion or

suspension of the development, and amount of capital invested), the relevant government authorities may issue a warning, impose fines or issue withdrawal orders pursuant to which the government will reclaim the Land.

In accordance with the Measures on the Disposal of Idle Land (《閒置土地處置辦法》) effective since July 1, 2012 a parcel of land shall be defined as idle land if a state-owned construction land user fails to commence development and construction within one year after the commencement date prescribed by, as applicable, the contract for paid use of state-owned construction land or the land allocation decision. A parcel of land can also be defined as idle land if the development and construction of the land has commenced, but the area developed and constructed 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 development and construction has been continuously suspended for one year. Furthermore, if the construction has not commenced within one year since the prescribed commencement date, an idle land fee shall be imposed at 20% of the price of land grant or land allocation, and if the construction has not commenced within two years since the prescribed commencement date, the land use rights shall be revoked, unless such delay is attributable to the government.

Under a supplemental land grant agreement entered into by Chongqing Riverside Real Estate Co., Ltd. (“Chongqing Riverside”) and the relevant government authority dated July 21, 2010 in connection with the development of Chongqing Global Twin Towers, Chongqing Riverside was to begin construction within one year of the signing date of the supplemental agreement, unless the construction plan is not approved for reasons attributable to the government. Chongqing Riverside is in discussions with the relevant authorities on its construction plan and it has not commenced construction. Under the land grant agreement entered into by Chongqing Ace Blossom Real Estate Co., Ltd (“Chongqing Ace Blossom”) with the relevant government authority dated June 30, 2008 in connection with the development of Phase III of Chongqing Manhattan City, Chongqing Ace Blossom was to begin construction within half a year after receiving the land from the government and the delay could not be more than one year. According to the Approval Form of Conditional Unfreezing of the Suspected Idle Land approved by the relevant government authorities, Chongqing Ace Blossom promised to begin construction in March 2013. Currently, Chongqing Ace Blossom is undertaking preliminary construction and obtained its land planning permit on July 11, 2013. Chongqing Ace Blossom has completed the preliminary survey and mapping work and will conduct the construction soon.

Under the land grant agreement entered into by Chongqing Peak No.1 Real Estate Co., Ltd (“Chongqing Peak No.1”) with the relevant government authority dated June 30, 2008 in connection with the development of Phase IV of Chongqing Manhattan City, Chongqing Peak No.1 was to begin construction within half a year after turning over the land and the delay could not be more than one year. According to the Approval Form of Conditional Unfreezing of the Suspected Idle Land approved by the relevant government authorities, Chongqing Peak No.1 promised to begin construction in June 2013. However, the relevant government authorities have not unfrozen the land as of the date of this offering circular. Therefore, Chongqing Peak No.1 has not begun construction and has not obtained any permit in relation to the construction. We are currently in the process of applying for unfreezing the land as well as the permits relevant to construction.

No related fines or liquidated damages have been imposed in connection with the requirements on the start of construction. However, we cannot assure you that the relevant government authorities will not impose fines or issue withdrawal orders, which could materially and adversely affect our business, results of operations and financial condition.

Under the land grant contracts Shanghai Jing'an Concord Real Estate Co., Ltd. ("Jing'an Concord") signed with relevant governmental authorities in connection with the land to be developed for Shanghai Concord City Phase II, Jing'an Concord was required to complete 60% of the development for plots No. 3 and No. 4 by June 1997. For plot No. 5, Jing'an Concord was required to complete 60% of the development by December 1998 and was required to fully complete the development by June 1999. However, the construction of Phase II North Wing on plots No. 3 and No. 5 started at the end of 2007 and the construction of Phase II South Wing on plot No. 4 has not started. As we have not finished these projects within the required time periods, there is a risk that the land use rights for those parcels of land may be subject to withdrawal by the relevant government authorities and Jing'an Concord may be fined. In March 2010, we registered the construction status of these plots of land with Shanghai Jing'an Bureau of Planning and Land Management and no withdrawal order or fine has been imposed on Jing'an Concord. In September 2012, we received oral confirmation from the relevant government authorities that these plots of land were not considered idle at that time. However, we cannot assure you that the relevant government authorities will not impose withdrawal orders or fines in the future, which could materially and adversely affect our business, results of operations and financial condition.

All property developers who have defaulted on a land grant fee payment, leave land idle and unused, or are deemed to be engaged in land speculation, or have otherwise defaulted on a land grant contract are prohibited from acquiring land for a certain period. We cannot assure you that any circumstances leading to the forfeiture of land or imposition of a penalty may not arise in the future. If we and our subsidiaries 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 the development costs and other costs incurred up to the date of forfeiture, and we may be unable to acquire other land. Any requirement that we pay idle land fees or other related penalties may materially and adversely affect our business, prospects, financial condition and results of operations.

Potential liability for environmental damages could result in substantial cost increases

We are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations that apply to any given project development site vary according to the site's location, the site's environmental condition, the present and former uses of the site and the nature and former uses of adjoining properties. Compliance with environmental laws and regulations may result in delays in development, substantial costs and may prohibit or severely restrict project development activity in environmentally sensitive regions or areas. Under PRC laws and regulations, we are required to submit an environmental impact assessment report to the relevant governmental authorities for approval before commencing construction of any project. Although the environmental inspections conducted by the relevant PRC environmental protection agencies to date have not revealed any environmental violations that we believe would have a material adverse effect on our business, results of operations or financial condition, there may be potential material environmental liabilities of which we are unaware. In addition, our operations could result in environmental liabilities or our contractors could violate environmental laws and regulations in their operations that may be attributed to us. For more information, see the section entitled "Business — Environmental Matters."

We could be subject to large fines and compensation for damage caused to public or government-owned structures as a result of our operations

We are a property development company and, as such, our construction activities could cause damage to existing structures near the properties we are developing. The PRC government has in the past imposed fines and the payment of compensation for damage caused to public or government-owned structures. In determining the amount of the fine and compensation, the government will take into consideration the relevant guidelines and factual circumstances. According to Civil Air Defense Law of the PRC, dismantling a civil air defense facility shall be approved by the relevant authorities and a company that dismantles such a facility shall be responsible for reconstruction or compensation. For instance, we were required to pay an amount of RMB7.0 million by the relevant authorities for damaging and destroying a civil air defense facility, and could be subject to further fines for damaging or destroying other public or government-owned structures.

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

Under the Regulations on the Administration of the Quality of Construction Works (《建設工程質量管理條例》) and the Administrative Measures on the Sale of Commodity Properties (《商品房銷售管理辦法》), 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.

The national and regional economies may be adversely affected by natural disasters, epidemics, acts of war and political unrest, which are beyond our control and which may cause damage, loss or disruption to our business

Natural disasters, epidemics, acts of war and political unrest, which are beyond our control, may materially and adversely affect the economy of the PRC and the cities in which we operate. Some areas in the PRC are under the threat of earthquakes, ice storms, floods, sandstorms, droughts or other natural disasters. For instance, in May 2008 and April 2013, high-magnitude earthquakes occurred in Sichuan Province and certain other areas of China. These disasters may cause significant casualties and loss of properties and any of our operations in the affected areas could be adversely affected. If similar or other inclement weather or climatic conditions or natural disasters occur, our operations may be hampered, which could result in an adverse impact on our business, results of operations and financial condition. In addition, certain areas of China are susceptible to epidemics such as Severe Acute Respiratory Syndrome (“SARS”), H5N1 flu, H1N1 flu or H7N9 flu. An increasing number of H7N9 flu cases have recently been confirmed in various regions in China. A recurrence of SARS or an outbreak of H5N1 flu, H1N1 flu, H7N9 flu or any other epidemics in China in general or in our target cities could result in material disruptions to our property developments, which in turn may materially and adversely affect our business, prospects, financial condition and results of operations. Political unrest, acts of war and terrorism may also cause disruption to our business and markets, injure our employees, cause loss of lives or damage our properties, any of which could materially impact our sales, costs, overall financial condition and

results of operations. The potential for wars or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict. As a result, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Risks Relating to China

Under the enterprise income tax law, we may be classified as a “resident enterprise” of China. Such classification could result in unfavorable tax consequences for us

Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (“EIT Law”), an enterprise established outside of China with a “de facto management body” within China is deemed a “resident enterprise,” meaning that it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes, although dividends paid from one resident enterprise to another one which directly holds the equity interest therein may qualify as “tax-exempt income.” The implementing rules of the EIT Law define “de facto management” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. A circular issued by the State Administration of Taxation on April 22, 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with a “de facto management body” located within China if all of the following requirements are satisfied: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within China; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within China. In addition, the State Administration of Taxation issued the Measures for the Administration of Income Tax for Chinese-controlled Resident Enterprises Registered Overseas (《境外註冊中資控股居民企業所得稅管理辦法(試行)》) (the “Measures”) on July 27, 2011 to provide more guidance on the implementation of the aforesaid circular with an effective date of September 1, 2011. The Measures specify that the State Administration of Taxation is entitled, based on a preliminary recognition result made by competent tax authorities either as a result of the application of such foreign enterprises or the investigation conducted by the competent tax authorities, to decide whether a foreign enterprise controlled by a PRC company or a PRC company group shall be deemed a “resident enterprise.”

Although we are not a foreign enterprise controlled by a PRC company or a PRC company group and therefore are not subject to the Measures, we cannot assure you that competent tax authorities would not adopt similar rules to determine whether or not we are a resident enterprise.

Since substantially all of our management is currently based in China, we cannot assure you that we will not be deemed a “resident enterprise” under the EIT Law and, therefore, be subject to enterprise income tax at a rate of 25% on our global income in the future. Our business, financial condition and results of operations may be materially and adversely affected if we are subject to PRC taxation on our global income.

There are uncertainties regarding the interpretation and enforcement of PRC laws and regulations

The PRC legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority but do not have binding precedential effect. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, property title, foreign investment, commerce,

taxation and trade. Because these laws, regulations and legal requirements are relatively new and evolving, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involves some uncertainty. Such uncertainties may lead to difficulties in enforcing our land use rights and in resolving disputes with contractors and others and could result in unanticipated costs and liabilities.

Furthermore, our operations in China are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. PRC company law and regulations, in general, and the provisions for the protection of bondholders rights and access to information, in particular, may be considered less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions.

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 EIT Law, if our Company is deemed a PRC resident enterprise, the interest payable on the Notes may be regarded as sourced from within the PRC and therefore subject to PRC withholding tax at the rate of 10% when paid to nonresident enterprise holders of the Notes, so long as such nonresident enterprise holders do not have an establishment or place of business in China or, if despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China, or at a rate of 20% when paid to nonresident individual holders of the Notes (or lower tax treaty rate, if any). Similarly, any gain realized on the transfer of the Notes by such investors will be subject to a 10% enterprise income tax rate or 20% individual income tax rate (or lower tax treaty rate, if any) if such gain is regarded as income derived from sources within China. It is uncertain whether we will be considered a PRC “resident enterprise,” so we are not sure whether the interest payable to our foreign investors, or the gain our foreign investors may realize from the transfer of our Notes, would be treated as income sourced within China and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on our interest payable 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.

Our operations and financial performance could be adversely affected by labor shortages, increase in labor costs, changes to the PRC labor-related laws and regulations or labor disputes

The PRC Labor Contract Law (“Labor Contract Law”), which became effective on January 1, 2008, imposes greater liabilities on employers and significantly affects the cost of an employer’s decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to effect such changes in the most cost effective or timely manner to our business, hence may adversely affect our financial condition and results of

operations. In addition, the PRC government has continued to introduce various new labor-related regulations after the promulgation of the Labor Contract Law. Among other things, the paid annual leave provisions require that paid annual leaves ranging from five to fifteen days be available to nearly all employees and further require that employers compensate an employee for any annual leave days the employee is unable to take in the amount of three times of such employee's daily salary, subject to certain exceptions.

On October 28, 2010, the Standing Committee of the National People's Congress promulgated the Social Insurance Law, which became effective on July 1, 2011, to clarify the contents of the social insurance system in China. According to the Social Insurance Law, employees will participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay for the social insurance premiums for such employees.

As a result of the implementation of these and any future rules and regulations designed to enhance the standard for labor protection, our labor costs may continue to increase. Furthermore, as the interpretation and implementation of these new laws and regulations are still evolving, we cannot assure you that our employment practice will at all times be deemed fully in compliance, which may cause us to face labor disputes or governmental investigations. If we are deemed in violation of such labor laws and regulations, we could be subject to penalties, compensations to the employees and loss of reputation, and as a result our business, financial condition and results of operations could be materially and adversely affected.

Further, labor disputes, work stoppages or slowdowns at our operating subsidiaries or project sites or affecting the operations of our business partners could disrupt our daily operation or our expansion plans, which could have a material adverse effect on our business and results of operations.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the PRC economy, the PRC real estate industry and the selected PRC regional data contained in this offering circular

Facts, forecasts and other statistics in this offering circular relating to China, the PRC economy, the PRC property industry and the selected PRC regional data have been derived from various official or other publications available in China and may not be consistent with other information compiled within or outside China. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Initial Purchaser or any of our or its affiliates or advisors (including legal advisors), or other participants in this offering and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics. We have, however, taken reasonable care in the reproduction and/or extraction of the official and other publications for the purpose of disclosure in this offering circular. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts, forecasts and statistics in this offering circular may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to China, the PRC economy, the PRC real estate industry and the selected PRC regional data contained in this offering circular.

PRC regulation of loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC subsidiaries

As an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals or registrations. For example, loans by us to our wholly owned PRC subsidiaries cannot exceed statutory limits and must be registered with the SAFE or its local branches. In addition, a foreign-invested real estate enterprise shall comply with following rules as stated in the Guidelines of Operation and Administration of Foreign Debt Registration dated May 13, 2013:

- (i) SAFE no longer processes foreign debt registrations by FIREEs if such FIREEs obtained their approval certificates from the relevant PRC governmental authorities and had effected their filings with MOFCOM on or after June 1, 2007.
- (ii) FIREEs established before June 1, 2007 shall still have the right to incur foreign debts within the statutory limit, which equals the outstanding balance between total investment and registered capital prior to the increase, or the outstanding balance between total investment and registered capital of such enterprises upon and after the increase, whichever is less.
- (iii) FIREEs cannot borrow foreign debt and process foreign debt registrations if its registered capital has not been fully paid, or the land use rights certificates have not been obtained or its capital ratio of project development has not reached 35%.

We may also decide to finance our PRC subsidiaries through capital contributions. According to the relevant PRC regulations on foreign-invested enterprises, depending on the amount of total investment and the type of business in which a foreign-invested enterprise is engaged, capital contributions to foreign-invested enterprises in China are subject to approval by the MOFCOM or its local branches. On August 29, 2008, SAFE promulgated the Notice on Relevant Business Operations Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises (《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》) (“Notice 142”) which regulates the conversion by a foreign-invested enterprise of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Notice 142 requires that the Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise 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 specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of the Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise. The use of such Renminbi capital may not be changed without SAFE’s approval, and may not, in any case, be used to repay or prepay the unused Renminbi loans. Violations of Notice 142 will result in severe penalties, such as heavy fines as set out in the relevant foreign exchange control regulations. As a result, we may not be able to increase the capital contribution to our PRC subsidiaries and subsequently convert such capital contribution into Renminbi for equity investment or acquisition in China.

We may not be able to obtain the above-mentioned government registrations, approvals or filings on a timely basis, or at all, with respect to future loans or capital contributions by us to our PRC subsidiaries. If we fail to receive such registrations, approvals or filings, our ability to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

It may be difficult to effect service of process upon our PRC subsidiaries or to enforce against us in China any judgments obtained from non-PRC courts

We conduct our operations through our PRC subsidiaries. Consequently, substantially all of the assets of the aforesaid subsidiaries are located within China. Therefore, it may not be possible for investors to effect service of process upon our PRC subsidiaries or to enforce against them in China any judgments obtained from courts outside the PRC.

China does not have treaties providing for the reciprocal recognition and enforcement of civil judgments of courts in the Cayman Islands, the British Virgin Islands, the United States, the United Kingdom, Japan or other countries with which prospective investors may be familiar. Effective from August 1, 2008, an arrangement between the PRC government and Hong Kong provides for the reciprocal recognition and enforcement of civil judgments between the PRC and Hong Kong. However, there are many restrictions on such arrangement. As a result, it may not be possible for investors to effect service of process upon our PRC subsidiaries pursuant to the authority of non-PRC courts. Further, the recognition and enforcement in China of judgments of courts outside China may be difficult or impossible.

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. The Subsidiary Guarantors do not have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries.

Creditors, including trade creditors of our PRC subsidiaries and any holders of preferred shares in such entities, would have a claim on our PRC 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 PRC 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 PRC subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. In addition, our secured creditors or those of any Subsidiary Guarantor would have priority as to our assets or the assets of such Subsidiary Guarantor securing the related obligations over claims of holders of the Notes.

Our subsidiaries are subject to restrictions on the payment of dividends, the repayment of intercompany loans or advances to us and our subsidiaries and obtaining and remitting foreign exchange

Our Company is a holding company incorporated in the Cayman Islands. We operate our business primarily through our subsidiaries in the PRC. Therefore, 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. For example, some of our current debt agreements include, and future bank credit facilities or other agreements or debt instruments may include, restrictive covenants such as restrictions on the ability of our subsidiaries to distribute dividends or to prohibit paying back the shareholders' loans before settling the bank loans. See "Description of Other Material Indebtedness." 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 under the Subsidiary Guarantees.

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 at least 10% of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves until the cumulative amount of such reserve reach 50% of their respective registered capital. If the statutory reserve funds cannot cover the enterprises' losses from previous years, the after-tax profit shall be used to make up the losses before being set aside to the statutory reserve funds. After that, discretionary reserve funds can be extracted from the after-tax profit by shareholder resolution or a general meeting of shareholders. These statutory reserves and discretionary reserves are not distributable as cash dividends.

In addition, our ability to satisfy our obligations under the Notes depends largely 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.

As a result of such restrictions, there could be timing and other limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

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

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. As of June 30, 2013, we had HK\$6,865.9 million in outstanding debt.

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.

The Notes and the Indenture permit us, the Subsidiary Guarantors and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. 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. Covenants in agreements governing debt we may incur in the future may materially restrict our operations, including our ability to make investments and payments, and encumber or dispose of assets.

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. 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 Indenture 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 Other Material Indebtedness.”

Such restrictions in the Indenture 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 operations are restricted by the terms of the Notes, the 2007 Notes, the 2012 Convertible Note and other obligations which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk

The indentures governing the Notes and the 2007 Notes, the trust deed governing the 2012 Convertible Note and our outstanding bank loan agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries (as defined in the Indenture);
- 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.

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 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, 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 Hong Kong dollar by approximately 34.9% from July 21, 2005 to June 30, 2013. 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 the devaluation of the 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.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, 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 other debt 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 Indenture, 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 Indenture. 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.

We may not be able to redeem the Notes upon the due date for redemption thereof

Upon certain events occurring we may, and at maturity we will be required to, redeem all or some of the Notes. If such an event were to occur or at the maturity date, we may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes on acceptable terms, or at all. Our ability to redeem the Notes may also be limited by the terms of our other debt instruments. Any failure by us to repay, repurchase or redeem Notes when required would constitute an event of default under the Notes, which may also constitute a default under the terms of our other indebtedness. Any such cross-default could cause the acceleration of repayment of such other indebtedness, which could materially and adversely affect our business, results of operations and financial condition.

The investment in the Notes is subject to interest rate risks

The PRC government has gradually liberalized the regulation of interest rates in recent years. Further liberation may increase interest rate volatility. The Notes will carry a fixed interest rate. Consequently, the trading price of the Notes will vary with the fluctuations in the Renminbi interest rates. If a holder of the Notes tries to sell such Notes before their maturity, he may receive an offer that is less than his investment.

The price of the Notes following the offering may be volatile

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

There is no public market for the Notes

The Notes are a new issue of securities for which there is currently no trading market. There is no assurance that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Notes or the price at which holders will be able to sell their Notes. The Initial Purchaser is not obliged to make a market in the Notes and any such market-making, if commenced, may be discontinued at any time at the sole discretion of the Initial Purchaser.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of relevant clearing systems to exercise any rights and remedies

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the Notes represented by the global certificate will trade in book-entry form only, and notes in definitive registered form, or definitive registered notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes. The nominee of the common depository for Euroclear and Clearstream will be the sole registered holder of the global certificate representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global certificate representing the Notes will be made to the Paying Agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global certificate representing the Notes and credited by such participants to indirect participants. After payment to the nominee of the common depository for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream or, if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

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

Risks Relating to the Subsidiary Guarantees and the Collateral

The subsidiary guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the subsidiary guarantees.

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in the British Virgin Islands, the Cayman Islands, Hong Kong and other jurisdictions where future subsidiary guarantors 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 such incurrence; 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 jurisdiction which are being applied. 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 liabilities was then greater than all of its assets at a fair valuation.

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 guarantors. 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 under the subsidiary guarantees will be limited to the maximum amount that can be guaranteed by the applicable subsidiary guarantor without rendering the guarantee, as it relates to such subsidiary guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court avoided a subsidiary guarantee, subordinated such guarantee to other indebtedness of the subsidiary guarantor or held the subsidiary guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that subsidiary guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such subsidiary guarantor and would solely be creditors of us and any subsidiary guarantor whose guarantee was not avoided or held unenforceable. We cannot assure you that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

There are circumstances, other than repayment or discharge of the Notes, under which the Subsidiary Guarantees will be released automatically without your consent

Under various circumstances, the Subsidiary Guarantees will be released automatically, including:

- upon the sale of a Subsidiary Guarantor in compliance with the terms of the Indenture resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture;
- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary, or if such Subsidiary Guarantor otherwise ceases to be a Restricted Subsidiary, in each case in compliance with the terms of the Indenture; or
- upon a defeasance or satisfaction and discharge of the Indenture as described under the captions "Description of the Notes — Defeasance" and "Description of the Notes — Satisfaction and Discharge."

The pledge of certain Collateral may in certain circumstances be voidable

The pledge of the Collateral securing the Notes may be voidable as a preference under insolvency or fraudulent transfer or similar laws of the British Virgin Islands, the Cayman Islands and Hong Kong at any time within six months of the perfection of the pledge or, under some circumstances, within a longer period. Pledges of issued share capital of future subsidiary guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the analysis set forth under the subsidiary guarantees or may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the subsidiary guarantees.

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

The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes

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

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

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

USE OF PROCEEDS

The net proceeds from the offering of the Notes will be approximately US\$143.5 million after deducting estimated fees, commissions and offering expenses payable by us.

We intend to use the net proceeds from this offering for our expansion strategies, refinancing and general working capital purposes.

EXCHANGE RATE INFORMATION

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

	Noon buying rate			
	Period end	Average ⁽¹⁾	Low	High
		(Hong Kong dollar per US\$1.00)		
2008	7.7499	7.7814	7.8159	7.7497
2009	7.7536	7.7513	7.7618	7.7495
2010	7.7810	7.7692	7.8040	7.7501
2011	7.7663	7.7793	7.8087	7.7634
2012	7.7507	7.7556	7.7699	7.7493
2013				
March	7.7629	7.7592	7.7640	7.7551
April	7.7606	7.7631	7.7652	7.7606
May	7.7625	7.7614	7.7639	7.7587
June	7.7560	7.7602	7.7654	7.7534
July	7.7558	7.7567	7.7587	7.7535
August	7.7544	7.7553	7.7564	7.7537
September (through September 27) . . .	7.7539	7.7542	7.7557	7.7533

(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.

Currently, there are no exchange control restrictions in Hong Kong.

In parts of this offering circular, we have translated Hong Kong dollar amounts into U.S. dollars for your convenience. Unless otherwise noted, the exchange rate used for these translations was HK\$7.7560 = US\$1.00, which was the noon buying rate in The City of New York on June 28, 2013 for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York. We make no representation that the Hong Kong dollar amounts stated in this offering circular could have been or could be converted into U.S. dollars at any particular rate, the above rates or at all.

CAPITALIZATION AND INDEBTEDNESS

The following table shows our consolidated capitalization (including current maturities of long-term debt) as of June 30, 2013:

- on an actual basis; and
- as adjusted to give effect to this offering.

You should read this table in conjunction with our financial statements contained elsewhere in this offering circular and the sections in this offering circular entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Use of Proceeds.”

	As of June 30, 2013	
	Actual (HK\$’000)	As Adjusted (HK\$’000)
Short-term debt:		
Bank borrowings — due within one year	1,353,258	1,353,258
Other borrowings — due within one year	1,198,889	1,198,889
Amount due to a shareholder	251,302	251,302
Fixed rate senior notes	797,311	797,311
Total short-term debt	3,600,760	3,600,760
Long-term debt — net of current maturities:		
Bank borrowings	714,666	714,666
Other borrowings	1,198,890	1,198,890
Convertible notes ⁽¹⁾	295,566	295,566
Loan from a shareholder	1,056,000	1,056,000
Notes to be issued hereby	—	1,112,986
Total long-term debt	3,265,122	4,378,108
Total debt	6,865,882	7,978,868
Total shareholders’ equity	41,698,536	41,698,536
Total capitalization ⁽²⁾	48,564,418	49,677,404

(1) Consists of the liability component of the HK\$500 million convertible note issued on August 14, 2012.

(2) Total capitalization equals total debt plus total shareholders’ equity.

Except as disclosed in this offering circular, there have been no material adverse changes in our capitalization since June 30, 2013.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

You should read this selected consolidated financial information in conjunction with our audited consolidated financial statements for the years ended December 31, 2011 and 2012 and our unaudited condensed consolidated financial statements for the six months ended June 30, 2013 and the notes thereto, which are included elsewhere in this offering circular. You should also read the section of this offering circular entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The selected consolidated financial information set forth below has been derived from our audited consolidated statements of financial position as of December 31, 2011 and 2012, our audited consolidated statements of comprehensive income and cash flows for the years ended December 31, 2011 and 2012. The summary financial data as of and for the financial year ended December 31, 2010 is derived from our audited consolidated financial statements as of and for the year ended December 31, 2011. The summary financial data as of June 30, 2013 and for the six months ended June 30, 2012 and 2013 is derived from our unaudited condensed consolidated statement of financial position as of June 30, 2013 and our unaudited condensed consolidated statements of profit or loss and other comprehensive income and cash flows for the six months ended June 30, 2013, included elsewhere in this offering circular. The consolidated financial information has been prepared in accordance with HKFRS. Our historical results of operations data are not necessarily indicative of the results to be expected for any other period.

	For the year ended December 31,			For the six months ended June 30,		
	2010	2011	2012	2012	2013	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	US\$'000
Consolidated statement of comprehensive income data:						
Revenue	207,262	983,785	692,760	285,846	700,791	90,355
Cost of sales	(54,970)	(626,734)	(429,980)	(167,698)	(382,887)	(49,367)
Gross profit	152,292	357,051	262,780	118,148	317,904	40,988
Other income, gains and losses.	52,144	27,996	53,587	12,838	14,996	1,933
Selling expenses	(4,288)	(39,942)	(34,470)	(10,087)	(18,385)	(2,370)
Administrative expenses	(61,612)	(104,434)	(99,233)	(63,011)	(54,985)	(7,089)
Profit from operation before changes in fair value of investment properties and conversion option derivative	138,536	240,671	182,664	57,888	259,530	33,462
Changes in fair value of investment properties	5,894,501	2,385,228	2,089,534	1,207,397	547,127	70,542
Changes in fair value of conversion option derivative	—	—	26,456	—	41,152	5,306
Profit before taxation	6,033,037	2,625,899	2,298,654	1,265,285	847,809	109,310
Income tax expense	(1,555,205)	(626,460)	(541,915)	(313,152)	(170,487)	(21,981)
Profit for the period attributable to the owners of the Company	<u>4,477,832</u>	<u>1,999,439</u>	<u>1,756,739</u>	<u>952,133</u>	<u>677,322</u>	<u>87,329</u>
Other comprehensive income						
Exchange differences arising on translation	1,272,196	1,441,742	649,121	206,278	639,254	82,421
Total comprehensive income for the period attributable to the owners of the Company	<u>5,750,028</u>	<u>3,441,181</u>	<u>2,405,860</u>	<u>1,158,411</u>	<u>1,316,576</u>	<u>169,750</u>
Other financial data:						
EBITDA ⁽¹⁾	141,484	243,614	211,740	59,219	301,925	38,928
EBITDA margin ⁽²⁾	68.3%	24.8%	30.6%	20.7%	43.1%	43.1%

(1) EBITDA is calculated as profit before taxation and before changes in fair values gain of investment properties plus depreciation and amortization charges. EBITDA is not a standard measure under HKFRS or U.S. GAAP. 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 performance

or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. 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 services and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes. Interest expense excludes amounts capitalized.

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

	As of December 31,			As of June 30,	
	2010	2011	2012	2013	
	HKS'000	HKS'000	HKS'000	HKS'000	US\$'000
Consolidated balance sheet data:					
Non-current assets					
Property, plant and equipment	238,196	283,852	327,644	356,472	45,961
Prepaid lease payments	161,993	163,707	161,652	161,754	20,855
Investment properties	47,235,495	51,963,171	55,281,545	56,928,357	7,339,912
	<u>47,635,684</u>	<u>52,410,730</u>	<u>55,770,841</u>	<u>57,446,583</u>	<u>7,406,728</u>
Current assets					
Properties under development					
for sales	3,413,031	3,601,495	3,595,693	3,641,254	469,476
Properties held for sales	302,440	447,258	463,239	511,176	65,907
Trade and other receivables, deposits and prepayments	314,957	325,220	365,002	372,080	47,973
Tax recoverable	—	18,145	18,181	—	—
Pledged bank deposits	12,554	72,207	421,436	255,459	32,937
Bank balances and cash	796,730	1,192,134	48,771	434,262	55,990
	<u>4,839,712</u>	<u>5,656,459</u>	<u>4,912,322</u>	<u>5,214,231</u>	<u>672,283</u>
Current liabilities					
Deposits received on sales of properties . . .	2,321,316	1,706,686	1,146,923	485,774	62,632
Construction costs accruals	434,778	576,456	465,245	500,537	64,535
Other payables and accruals	153,434	111,982	154,768	154,378	19,904
Amount due to a shareholder	167,189	1,456,696	103,559	251,302	32,401
Tax payable	665,250	679,895	755,907	780,256	100,600
Borrowings — due within one year	683,321	988,583	3,147,668	2,552,147	329,055
Fixed rate senior notes	—	—	—	797,311	102,799
	<u>4,425,288</u>	<u>5,520,298</u>	<u>5,774,070</u>	<u>5,521,705</u>	<u>711,926</u>
Net current (liabilities) assets	<u>414,424</u>	<u>136,161</u>	<u>(861,748)</u>	<u>(307,474)</u>	<u>(39,643)</u>
Total assets less current liabilities	<u>48,050,108</u>	<u>52,546,891</u>	<u>54,909,093</u>	<u>57,139,109</u>	<u>7,367,085</u>
Non-current liabilities					
Borrowings — due after one year	3,016,650	2,716,642	577,181	1,913,556	246,719
Fixed rate senior notes	788,402	791,966	795,529	—	—
Convertible note	—	—	270,323	295,566	38,108
Conversion option derivative	—	—	244,844	203,692	26,263
Deferred tax liabilities	9,959,036	10,953,515	11,655,603	11,971,759	1,543,548
Loan from a shareholder	—	350,000	1,056,000	1,056,000	136,153
	<u>13,764,088</u>	<u>14,812,123</u>	<u>14,599,480</u>	<u>15,440,573</u>	<u>1,990,791</u>
	<u>34,286,020</u>	<u>37,734,768</u>	<u>40,309,613</u>	<u>41,698,536</u>	<u>5,376,294</u>

	For the year ended December 31,			For the six months ended June 30,		
	2010	2011	2012	2012	2013	
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	US\$'000
Net cash from (used in)						
operating activities	1,221,863	(529,625)	(385,649)	(292,344)	(304,922)	(39,314)
Net cash from (used in) investing activities						
	(1,094,252)	(317,943)	(369,827)	(224,706)	116,598	15,033
Net cash from (used in) financing activities						
	93,957	1,206,995	(394,145)	(422,214)	571,203	73,647
Cash and cash equivalents at end of the period						
	796,730	1,192,134	48,771	260,984	434,262	55,990

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

The following discussion and analysis should be read in conjunction with the selected consolidated financial information and other data included in this offering circular, the consolidated financial statements for the year ended December 31, 2012 in our annual report dated March 18, 2013, the consolidated financial statements for the year ended December 31, 2011 in our annual report dated March 29, 2012, and the unaudited condensed consolidated financial statements for the six months ended June 30, 2013 in our interim report dated August 29, 2013, which have been extracted and included elsewhere in this offering circular. Unless the context otherwise requires, references to "2010," "2011" and "2012" in this offering circular are to our financial years ended December 31, 2010, 2011 and 2012, respectively. This financial information has been prepared in accordance with HKFRS, which differs in certain significant respects from U.S. GAAP. The discussion contains forward-looking statements and reflects the current view of our Company with respect to future events and financial performance. Actual results may differ mandatorily from those anticipated in these forward-looking statements as a result of certain factors such as those set forth under "Risk Factors" and elsewhere in this offering circular.

Overview

We are a property development and investment company in China focusing on developing and creating high-quality, large-scale, residential and commercial projects in strategic locations in Shanghai and Chongqing. We design our projects based on themes and concepts drawn from different cultures. Our properties are designed to target the significant and growing population of middle- and upper-middle-class purchasers and consumers in China, who we believe are attracted to a modern and upscale lifestyle and atmosphere.

Our current developments consist of five projects, namely Shanghai Cannes and Shanghai Concord City, which are located in Shanghai, and Chongqing Manhattan City, Chongqing Concord City and Chongqing Global Twin Towers, which are located in Chongqing.

We earn revenue primarily from the sales of residential properties. We also earn revenue by leasing our investment properties and by providing property management services to occupiers of properties developed by us. Our two-pronged strategy is to continue to focus on developing properties for sale, as well as to diversify our revenue mix by retaining an increasing proportion of our properties as investment properties. We believe such diversification will broaden our revenue base and provide a source of recurring revenue that may be more stable than revenue from sales of residential properties, which is more susceptible to fluctuations in the economic cycles. In addition, we may benefit from the potential capital appreciation of our investment properties located in valuable commercial streets at prime locations in China.

Profit attributable to the owners of the Company in 2010, 2011, 2012 and the first six months of 2013 was HK\$4,477.8 million, HK\$1,999.4 million, HK\$1,756.7 million and HK\$677.3 million, respectively. During the same periods, our revenue totaled HK\$207.3 million, HK\$983.8 million, HK\$692.8 million and HK\$700.8 million, respectively. Under our recognition policy on changes in fair values of our investment properties, fair values of investment properties are assessed on a marked-to-market basis and the net changes are recognized in the consolidated statement of comprehensive income. Fair values of our investment properties fluctuate based on market conditions, and in 2010, 2011, 2012 and the first six months of 2013, these fluctuations were significant. In 2010, 2011, 2012 and the first six months of 2013, we recognized changes in fair value of investment properties of HK\$5,894.5 million, HK\$2,385.2 million, HK\$2,089.5 million and

HK\$547.1 million, respectively. See “Risk Factors — Risks Relating to Our Business — Our results of operations may fluctuate substantially due to changes in the fair value of our investment properties.” The fluctuations in our revenue during the past three years were primarily attributable to fluctuations in revenue from sales of residential properties, which were affected by the volume of properties we sold and delivered, and the type and location of our projects available for sale, which directly affect their average selling prices.

Key Factors Affecting Our Results of Operation

Changes in Market Conditions and Government Policies

Our results of operation and financial conditions have been in the past, and we believe will continue to be, significantly affected by China’s economic and other market conditions as well as the economic measures undertaken by the PRC government. In line with China’s rapid economic growth in recent years, the real estate industry in China has experienced rapid growth since the 1990s. Investment in real estate in China grew at a CAGR of 23.2% from 2007 to 2012. The total GFA of residential properties sold increased at a CAGR of 7.0% from 2007 to 2012.

Since 2004, the PRC government has taken various measures to control money supply, credit availability, property investment and fixed assets investment. For example, in April 2005, the PRC government issued the Notice of Stabilizing Property Prices aimed at directly controlling the growth of the real estate market. In May 2006, the PRC government implemented a series of new measures on land supply, bank mortgage finance, taxation and other aspects, which have further adversely affected the overall sentiment in the property market. In the wake of the global financial crisis, the PRC government implemented an economic stimulus plan in late 2008 and 2009. Nevertheless, the PRC government has since continued the strict enforcement of policies on tax, loans, land supply and other aspects to control the increase of housing prices. In early 2011, a notice was issued to restrict the number of properties one family can purchase. To continue to regulate the real estate market, another notice was issued in 2013 to emphasize the enforcement of, among other things, the individual income tax on property transfers, commodity housing purchase restrictions and the supply of affordable housing. See “Regulations” for further details. See “Regulations — Measures on Property Price Stabilization.”

We expect fluctuations in the PRC economy, as well as changes to the PRC government’s policies relating to property development and sales to continue to significantly affect the changes in fair values of our investment properties and our total revenue.

Changes in Fair Values of Investment Properties

Our investment properties consist of properties held for rental purpose and leasehold land held to be used for the construction of properties for rental purpose. As of each balance sheet date, the value of our investment properties is assessed by an independent property valuer or our directors based on the then current market value. Pursuant to HKAS 40 on investment properties, we recognize any net change in the fair value of our investment properties in our consolidated statement of comprehensive income as “changes in fair value of investment properties.”

In 2010, 2011, 2012 and the first six months of 2013, movements in fair values of our investment properties had a significant impact on the profit for the relevant periods. The following table sets forth our revenue, gross profit, changes in fair value of investment properties and profit for the periods indicated.

	<u>For the year ended December 31,</u>			<u>For the six months ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>	
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>US\$'000</u>
Revenue	207,262	983,785	692,760	285,846	700,791	90,355
Gross profit	152,292	357,051	262,780	118,148	317,904	40,988
Changes in fair value of investment properties	5,894,501	2,385,228	2,089,534	1,207,397	547,127	70,542
Profit for the period	4,477,832	1,999,439	1,756,739	952,133	677,322	87,329

For 2010, changes in fair value of investment properties totaled HK\$5,894.5 million and the changes in fair values of our investment properties were significantly higher than our revenue. Accordingly, substantial portions of the profit for 2010 were attributable to the increases in fair values of our investment properties. In contrast to the significant increases which we experienced in 2010, we recognized a lower gain in fair value of our investment properties of HK\$2,385.2 million in 2011. The net profit for 2011 decreased accordingly despite a significant increase in our revenue for 2011. For 2012, we recognized a lower gain of HK\$2,089.5 million in fair value of investment properties compared with 2011. For the six months ended June 30, 2013, we experienced a significant decrease in fair value gain on investment properties of HK\$547.1 million, compared with the same period in 2012. In 2010, 2011, 2012 and the first six months of 2013, changes in fair values of our investment properties have been primarily attributable to the changes in market conditions and government policies, and as such, have been generally beyond our control. See “— Changes in Market Conditions and Government Policies” above. In future periods, we also expect changes in rental income levels to contribute to changes in fair value of investment properties. Excluding the effect of changes in fair value of investment properties and the related deferred tax effect, the adjusted profit in 2010, 2011, 2012 and the first six months of 2013 would have been HK\$57.0 million, HK\$210.5 million, HK\$186.5 million and HK\$266.0 million, respectively.

In addition, in accordance with HKFRS, the values of our properties held for sales and properties under development for sales (collectively, “properties for sale”) are assessed on a different basis than our investment properties. Our properties for sale are valued at the lower of cost and net realizable value, and as such, are not assessed based on their then current values, and accordingly, any increases in the fair value of such properties are not reflected on our consolidated statement of comprehensive income. As a result, a change, or transfer, in the classification of a property between investment property and property for sale may result in a change in our profit for the relevant period. We make such transfers according to changes in our development plan, which are based on (a) information regarding property market condition and perceived market trends including market research report conducted by property agents; (b) the benefit for the disposal of properties taking into account existing market conditions and perceived market demands for sales of such properties; (c) the potential capital appreciation and return if the properties were transferred and held for investment instead of for immediate sale on completion or for existing purpose; and (d) the ability to manage the properties held for investment whether by itself or through third parties. However, the accounting treatment of transfers between investment properties and properties held for sale is subject to HKFRS.

We intend to continue our periodical assessment of our property classifications, and as part of our strategy to broaden our revenue mix, we intend to develop more properties that will be classified as investment properties. See “Business — Our Strategies — Seeking to achieve and maintain a diverse mix of sale and investment properties.”

Fluctuations in Revenue

In 2010, 2011, 2012 and the first six months of 2013, we derived the majority of our revenue from sales of residential properties, with the remaining derived from property rental and management income. Sales of residential properties accounted for approximately 87.3%, 97.7%, 97.3% and 98.8% of our revenue respectively during the same period. Accordingly, fluctuations in our revenue during the past periods were primarily attributable to fluctuations in revenue from sales of residential properties, which in turn are dependent on the number of properties we sell and deliver and the prices at which we make such sales. The number of properties we sell during any period is dependent on the number of projects we have under development during that period and the progress we make on the construction of those projects. The average selling prices of our projects depend mainly on their location and property type. See “— Certain Consolidated Statement of Comprehensive Income Items — Revenue” for information on the volume and prices of the properties we sold and delivered during the past three years. See “Business — Property Descriptions” for information on the volume of properties we currently expect to sell and deliver.

Revenue from sales of residential properties is recognized on the earlier of the transfer of title to the property or the delivery of the property to the purchaser. With respect to pre-sale properties, we do not transfer their title or deliver the property until we have obtained the relevant occupation permits. Any proceeds we receive before we recognize revenue are credited to our balance sheet as deposits received on sales of residential properties. Historically, proceeds from pre-sale have accounted for a significant portion of our revenue. The amount of pre-sale during a period serves as an indicator of revenue upon recognition. The period from the time when a pre-sale contract is signed to the time when a sale of property is recognized by us is typically 12 to 18 months. If a purchaser fails to pay the balance of the purchase price on completion of construction and we exercise our entitlement to resell the property, sales deposits received from such purchasers in advance of completion may be forfeited. Our deposits received on sales of residential properties was HK\$485.8 million as of June 30, 2013.

As part of our strategy to diversify our business, we intend to develop more of our properties as investment properties. As a result, we may experience a further diversity in the components of our revenue. See “Business — Our Strategies — Seeking to achieve and maintain a diverse mix of sale and investment properties.” For a discussion of risks associated with such strategy, see “Risk Factors — Risks Relating to Our Business — We may not be able to leverage our experience in Shanghai and Chongqing to expand to other cities in China” and “Risk Factors — Risks Relating to Our Business — We may not be able to obtain adequate financing to fund our land acquisitions and property projects.”

Certain Consolidated Statement of Comprehensive Income Items

Revenue

In 2010, 2011, 2012 and the first six months of 2013, we derived the majority of our revenue from sales of residential properties, with remaining revenue derived from property rental and management income. The following table sets forth the revenue attributable to sales of residential properties, property rental income and property management income for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,				
	2010		2011		2012		2012		2013		
	Amount HK\$'000	% of total (%)	Amount HK\$'000	% of total (%)	Amount HK\$'000	% of total (%)	Amount HK\$'000	% of total (%)	Amount HK\$'000	US\$'000	% of total (%)
Sales of residential properties . . .	180,839	87.3	960,925	97.7	673,914	97.3	274,703	96.1	692,121	89,237	98.8
Property rental income	24,356	11.7	20,825	2.1	15,999	2.3	10,105	3.5	4,720	609	0.7
Property management income	2,067	1.0	2,035	0.2	2,847	0.4	1,038	0.4	3,950	509	0.5
Total Revenue	207,262	100.0	983,785	100.0	692,760	100.0	285,846	100.0	700,791	90,355	100.0

The following table sets forth our revenue from the sales of residential properties by reportable and operating segment for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,				
	2010		2011		2012		2012		2013		
	Amount HK\$'000	% of total (%)	Amount HK\$'000	% of total (%)	Amount HK\$'000	% of total (%)	Amount HK\$'000	% of total (%)	Amount HK\$'000	US\$'000	% of total (%)
Property development											
Chongqing	—	—	936,744	95.2	673,286	97.2	274,703	96.1	692,121	89,237	98.8
Shanghai	180,839	87.3	24,181	2.5	628	0.1	—	—	—	—	—
Property investment											
Chongqing	—	—	—	—	—	—	—	—	—	—	—
Shanghai	24,356	11.7	20,825	2.1	15,999	2.3	10,105	3.5	4,720	609	0.7
Others	2,067	1.0	2,035	0.2	2,847	0.4	1,038	0.4	3,950	509	0.5
Total Revenue	207,262	100.0	983,785	100.0	692,760	100.0	285,846	100.0	700,791	90,355	100.0

Cost of Sales

Cost of sales consists of cost of properties sold and cost relating to generation of rental income and property management income. For 2010, 2011, 2012 and the first six months of 2013, 89.1%, 98.9%, 97.0% and 98.1%, respectively, of our cost of sales was derived from cost of properties sold.

Land costs consist of the cost of the land as stated in the sale and purchase agreement with the seller, demolition and clearing cost and the applicable deed tax associated with the acquisition of such land. Construction and development costs consist of costs attributable to the design and construction of the projects.

Selling Expenses

Selling expenses primarily consist of (i) advertising and other promotional expenses relating to the sales of residential properties; (ii) expenses relating to sales promotion schemes to customers; and (iii) commissions paid to our property sales agents in connection with sales of residential properties.

Administrative Expenses

Administrative expenses primarily consist of (i) salaries and other benefits; (ii) depreciation and amortization; (iii) compensation (which includes late delivery penalties and arrangement fees to banks); (iv) allowance for bad and doubtful debts; and (v) project development costs such as the costs of feasibility studies.

Changes in Fair Values of Investment Properties

Changes in fair values of investment properties consist of (i) changes in fair values of properties held for rental purpose; and (ii) leasehold land held for construction of properties for rental purpose. For a description of these components, see the notes to the consolidated financial statements for the year ended December 31, 2012 included elsewhere in this offering circular. For a discussion of the impact of this line item on our results of operation, see “— Key Factors Affecting Our Results of Operation — Changes in Fair Values of Investment Properties.”

Income Tax Expense

Income tax expense consists of (i) land appreciation tax, or LAT; (ii) income tax; and (iii) deferred tax.

Land Appreciation Tax

Under PRC laws and regulations, our PRC subsidiaries engaging in property development are subject to LAT which is levied by the local tax authorities. All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value (as defined in the relevant tax laws), with certain exemptions available for the sale of ordinary residential properties if the appreciation values do not exceed certain thresholds set forth in the tax regulation. Sale of commercial properties is not eligible for such exemption. Whether a property qualifies for the ordinary residential property exemption is determined by the local government taking into consideration the property's plot ratio, aggregate GFA and sales price. Sales of villas and retail shops typically realize higher appreciation values, and are subject to higher LAT rates, compared to less expensive properties. Our board of directors believe that we have made sufficient provisions based on our estimate of the amount of applicable LAT in accordance with the requirements set forth in the relevant PRC tax laws and regulations, but we only prepay a portion of such provisions, at a rate of 1–2% of the proceeds from sales and pre-sales of our properties each year as required by the local tax authorities. For details, see “Risk Factors — Risks Relating to Our Business — Our LAT provisions may not be sufficient to meet our LAT obligations.” As of December 31, 2010, 2011, 2012 and June 30, 2013, we made a provision for LAT in the amount of HK\$623.8 million, HK\$636.1 million, HK\$692.5 million and HK\$707.1 million, respectively. We will make a final accounting of appreciation values in connection with the sale of our properties of each of our projects according to the relevant LAT requirements and settle the difference with the tax authorities.

Income Tax

Our PRC subsidiaries are subject to a 25% PRC Corporate Income Tax on the assessable profits during 2010, 2011, 2012 and the six months ended June 30, 2013.

On March 16, 2007, the National People's Congress promulgated the PRC Income Tax Law for Enterprises, which became effective from January 1, 2008 (the "New Tax Law"). The New Tax Law provides that, among other things, the unified standard tax rate for all the enterprises within the PRC, including foreign invested enterprises, will be 25%. Enterprises established before the proclamation of the New Tax Law which have been enjoying a tax exemption holiday or preferential tax treatment may continue enjoying such tax exemption holiday or preferential tax treatment even after the New Tax Law comes into effect until the period for such holiday or tax treatment expires. If a tax exemption holiday or preferential tax treatment has not commenced due to the non-profit status of the enterprise, such holiday or preferential tax treatment shall start from January 1, 2008.

In accordance with the New Tax Law, our subsidiary Shanghai Baili Construction Management and Consultancy Co., Ltd. (上海百利工程管理諮詢有限公司) enjoyed preferential tax treatment at 15% in 2006 gradually stepping up to 25% in 2012 and a 50% tax reduction in 2010, and our subsidiary Shanghai Zhengtian Construction Management Consultancy Co., Ltd. (上海正天工程管理諮詢有限公司) enjoyed a 50% tax reduction in 2010.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative 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.

Results of Operation

The following table sets forth, for the periods indicated, certain income and expense items for our operations.

	For the year ended December 31,			For the six months ended June 30,		
	2010	2011	2012	2012	2013	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	US\$'000
Revenue	207,262	983,785	692,760	285,846	700,791	90,355
Cost of sales	(54,970)	(626,734)	(429,980)	(167,698)	(382,887)	(49,367)
Gross profit	152,292	357,051	262,780	118,148	317,904	40,988
Other income, gains and losses.	52,144	27,996	53,587	12,838	14,996	1,933
Selling expenses	(4,288)	(39,942)	(34,470)	(10,087)	(18,385)	(2,370)
Administrative expenses	(61,612)	(104,434)	(99,233)	(63,011)	(54,985)	(7,089)
Profit from operation before changes in fair value of investment properties and conversion option derivative	138,536	240,671	182,664	57,888	259,530	33,462
Changes in fair value of investment properties	5,894,501	2,385,228	2,089,534	1,207,397	547,127	70,542
Changes in fair value of conversion option derivative	—	—	26,456	—	41,152	5,306
Profit before taxation	6,033,037	2,625,899	2,298,654	1,265,285	847,809	109,310
Income tax expense	(1,555,205)	(626,460)	(541,915)	(313,152)	(170,487)	(21,981)
Profit for the period attributable to the owners of the Company	4,477,832	1,999,439	1,756,739	952,133	677,322	87,329
Other comprehensive income						
Exchange differences arising on translation	1,272,196	1,441,742	649,121	206,278	639,254	82,421
Total comprehensive income for the period attributable to the owners of the Company	5,750,028	3,441,181	2,405,860	1,158,411	1,316,576	169,750
Other financial data:						
EBITDA ⁽¹⁾	141,484	243,614	211,740	59,219	301,925	38,928
EBITDA margin ⁽²⁾	68.3%	24.8%	30.6%	20.7%	43.1%	43.1%

(1) EBITDA is calculated as profit before taxation and before changes in fair values gain of investment properties plus depreciation and amortization charges. EBITDA is not a standard measure under HKFRS or U.S. GAAP. 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 performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. 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 services and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes. Interest expense excludes amounts capitalized.

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

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Revenue

We generated revenue of HK\$700.8 million for the six months ended June 30, 2013, an increase of HK\$415.0 million, or 145.2%, from HK\$285.8 million for the same period in 2012. The increase was primarily due to the increase in revenue from sales of residential properties of Chongqing Manhattan City and to a lesser extent, property management income, partially offset by the decrease in property rental income.

Revenue from sales of residential properties increased by 151.9% to HK\$692.1 million for the six months ended June 30, 2013, from HK\$274.7 million for the same period in 2012, primarily due to an increase in the total GFA of properties sold and delivered and an increase in the average selling prices during this period. We delivered approximately 131, 224 sq.m. of GFA in the first six months of 2013, representing a 136.4% increase from approximately 55,499 sq.m. in the same period in 2012. In the first six months of 2013, our GFA delivered primarily comprised a majority of the residential units at Chongqing Manhattan City Phase II, and in the same period in 2012, our GFA delivered primarily comprised units at Chongqing Manhattan City Phases I and II.

Property management income increased by 300.0% to HK\$4.0 million for the six months ended June 30, 2013, from HK\$1.0 million for the same period in 2012, primarily due to an increase in the GFA of properties we managed as a result of our delivery of Chongqing Manhattan City Phases I and II in the first six months in 2013.

Property rental income decreased by 53.5% to HK\$4.7 million for the six months ended June 30, 2013, from HK\$10.1 million for the same period in 2012. The decrease was primarily due to the termination of certain tenancies to allow future upgrade construction of the mall development at Shanghai Concord City.

Cost of Sales

The GFA sold and delivered in the first six months in 2013 consisted primarily of Chongqing Manhattan City Phase II, and the majority of the GFA sold and delivered in the same period in 2012 consisted of Chongqing Manhattan City Phases I and II. Cost of sales increased by HK\$215.2 million, or 128.3%, from HK\$167.7 million for the six months ended June 30, 2012 to HK\$382.9 million for the same period in 2013, primarily due to an increase in GFA sold and delivered during the first six months of 2013.

Gross Profit

As a result of the foregoing, gross profit increased significantly by HK\$199.8 million, or 169.2%, from HK\$118.1 million for the six months ended June 30, 2012 to HK\$317.9 million for the same period in 2013 and our gross margin increased to 45.4% for six months ended June 30, 2013 from 41.3% for the same period in 2012.

Other Income and Gains

Other income and gains increased by 17.2% from HK\$12.8 million for the six months ended June 30, 2012 to HK\$15.0 million for the same period in 2013, mainly due to the increase in net exchange gain of HK\$4.5 million attributable to the appreciation of Renminbi against Hong Kong dollars during the period.

Selling Expenses

Selling expenses increased by 82.2% from HK\$10.1 million for the six months ended June 30, 2012 to HK\$18.4 million for the same period in 2013, primarily due to an increase in advertising and promotion expenses in line with the increase in sales of Chongqing Manhattan City Phase II.

Administrative Expenses

Administrative expenses decreased by 12.7% from HK\$63.0 million for the six months ended June 30, 2012 to HK\$55.0 million for the same period in 2013. The decrease was primarily due to the implementation of tighter cost control.

Changes in Fair Values of Investment Properties

We recognized a lower fair value gain of investment properties of HK\$547.1 million for the six months ended June 30, 2013 compared to HK\$1,207.4 million for the same period in 2012. The decrease was primarily due to the decrease in investment property appreciation.

Changes in Fair Value of Conversion Option Derivative

During the six months ended June 30, 2013, we experienced changes in fair value of conversion option derivative credited to profit or loss amounting to HK\$41.2 million.

Profit Before Taxation

As a result of the foregoing, profit before taxation decreased by HK\$417.5 million, or 33.0%, to HK\$847.8 million for the six months ended June 30, 2013, from HK\$1,265.3 million for the same period in 2012.

Income Tax Expense

Income tax expense decreased by HK\$142.7 million, or 45.6% from HK\$313.2 million for the six months ended June 30, 2012 to HK\$170.5 million for the same period in 2013, primarily due to a decrease in our taxable income. Our effective income tax rate was 20.1% in the first six months of 2013 and 24.8% in the same period in 2012, respectively.

Profit for the Period

As a result of the foregoing, profit for the period decreased by HK\$274.8 million, or 28.9%, to HK\$677.3 million for the six months ended June 30, 2013, from HK\$952.1 million for the same period in 2012.

2012 Compared to 2011

Revenue

We generated revenue of HK\$692.8 million for 2012, a decrease of HK\$291.0 million, or 29.6%, from HK\$983.8 million for 2011. The decrease was primarily due to a decrease in revenue from sales of residential properties, and a decrease in revenue from property rental income, partially offset by an increase in property management income.

Revenue from sales of residential properties decreased by 29.9% to HK\$673.9 million for 2012, from HK\$960.9 million for 2011, primarily due to a decrease in the total GFA of properties sold and delivered, partially offset by an increase in the average selling prices during this period. We delivered approximately 133,701 sq.m. of GFA in 2012, representing a 38.6% decrease from approximately 217,902 sq.m. in 2011. In 2011, our GFA delivered primarily comprised a majority of the residential units at Chongqing Manhattan City Phase I and in 2012, our GFA delivered primarily comprised units at Chongqing Manhattan City Phases I and II.

Property rental income decreased by 23.1% to HK\$16.0 million for 2012, from HK\$20.8 million for 2011. The decrease was primarily due to the termination of certain tenants in anticipation of the future upgrade construction of the mall development at Shanghai Concord City.

Property management income increased by 40.0% to HK\$2.8 million for 2012, from HK\$2.0 million for 2011, primarily due to an increase in the GFA of properties we managed as a result of our delivery of Chongqing Manhattan City Phases I and II in 2012.

Cost of Sales

The GFA sold and delivered in 2012 consisted primarily of Chongqing Manhattan City Phases I and II, and a majority of the GFA sold and delivered in 2011 consisted of Chongqing Manhattan City Phase I. Cost of sales decreased by HK\$196.7 million, or 31.4%, from HK\$626.7 million for 2011 to HK\$430.0 million for 2012, primarily due to the decrease in GFA sold and delivered during 2012.

Gross Profit

As a result of the foregoing, gross profit decreased by HK\$94.3 million, or 26.4%, from HK\$357.1 million for 2011 to HK\$262.8 million for 2012 and our gross margin slightly increased to 37.9% for 2012 from 36.3% for 2011.

Other Income and Gains

Other income and gains increased by 91.4% from HK\$28.0 million for 2011 to HK\$53.6 million for 2012, mainly due to the increase in the gain on disposal of investment properties in 2012, partially offset by the decrease in net exchange gain due to a lower rate of appreciation of RMB in 2012 than 2011.

Selling Expenses

Selling expenses decreased by 13.5% from HK\$39.9 million for 2011 to HK\$34.5 million for 2012, primarily due to decreases in advertising and promotion expenses as the advertising expense required in 2011 for the sale of Chongqing Manhattan City was higher.

Administrative Expenses

Administrative expenses decreased slightly by 5.0% from HK\$104.4 million for 2011 to HK\$99.2 million for 2012. The decrease was primarily due to less property related expenses and taxes including stamp duty paid as less development properties were sold and delivered in 2012.

Changes in Fair Values of Investment Properties

We recognized a lower fair value gain of investment properties of HK\$2,089.5 million for 2012 compared to HK\$2,385.2 million in 2011. This is because the valuation of investment properties in Shanghai and Chongqing in 2012 is appreciating at a slower pace as compared to 2011.

Changes in Fair Value of Conversion Option Derivative

During 2012, we experienced changes in fair value of conversion option derivative amounted to HK\$26.5 million.

Profit Before Taxation

As a result of the foregoing, profit before taxation decreased by HK\$327.2 million, or 12.5%, to HK\$2,298.7 million for 2012, from HK\$2,625.9 million for 2011.

Income Tax Expense

Income tax expense decreased by HK\$84.6 million, or 13.5% from HK\$626.5 million for 2011 to HK\$541.9 million for 2012 due to the decrease in our taxable income. Our effective income tax rate was 23.6% in 2012 and 23.9% in 2011, respectively.

Profit for the Year

As a result of the foregoing, profit for the year decreased by HK\$242.7 million, or 12.1%, to HK\$1,756.7 million for 2012, from HK\$1,999.4 million for 2011.

2011 Compared to 2010

Revenue

We generated revenue of HK\$983.8 million in 2011, an increase of HK\$776.5 million from HK\$207.3 million in 2010. The increase was principally the result of an increase in revenue from sales of residential properties, which increased by 431.4% to HK\$960.9 million in 2011 from HK\$180.8 million in 2010, which in turn was principally attributable to a significant increase in the total GFA of properties we sold and delivered in 2011, partially offset by a decrease in the average selling prices in the projects we sold. We delivered a GFA of approximately 217,902 sq.m. in 2011 compared to 9,108 sq.m. in 2010.

Property rental income decreased by 14.8% to HK\$20.8 million in 2011 from HK\$24.4 million in 2010, primarily due to the termination of certain tenancies in anticipation of the future upgrade construction of Shanghai Concord City.

Property management income remained approximately the same at HK\$2.0 million in 2011 compared to HK\$2.1 million in 2010.

Cost of Sales

Cost of sales increased by HK\$571.7 million to HK\$626.7 million in 2011, from HK\$55.0 million in 2010, primarily due to the increase in GFA sold in, despite the lower average cost of, Chongqing Manhattan City in 2011.

Gross Profit

As a result of the foregoing, gross profit increased by HK\$204.8 million, or 134.5%, to HK\$357.1 million in 2011, from HK\$152.3 million in 2010, in line with the increase in our total revenue in 2011 and our gross margin decreased to 36.3% in 2011 from 73.5% in 2010.

Other Income, Gains and Losses

Other income, gains and losses decreased to HK\$28.0 million in 2011 from HK\$52.1 million in 2010, primarily due to the one-time gain from repurchase of senior notes in 2010, offset by the increase of net exchange gain in 2011.

Selling Expenses

Selling expenses increased by HK\$35.6 million to HK\$39.9 million in 2011 from HK\$4.3 million in 2010, primarily due to increases in advertising and promotion expenses for the sale of units in our Chongqing Manhattan City project.

Administrative Expenses

Administrative expenses increased by HK\$42.8 million, or 69.5%, to HK\$104.4 million in 2011 from HK\$61.6 million in 2010, primarily due to more property related expenses and taxes including stamp duty paid as property construction activities reached a higher level during 2011.

Changes in Fair Values of Investment Properties

We recorded a lower fair value gain of investment properties of HK\$2,385.2 million in 2011, compared to HK\$5,894.5 million in 2010, primarily due to lower general market appreciation as compared to 2010.

Profit before Taxation

As a result of the foregoing, our profit before taxation decreased by HK\$3,407.1 million, or 56.5%, to HK\$2,625.9 million in 2011 from HK\$6,033.0 million in 2010.

Income Tax Expense

Income tax expense decreased by HK\$928.7 million, or 59.7%, to HK\$626.5 million in 2011 from HK\$1,555.2 million in 2010, which was generally in line with our 56.5% decrease in profit before taxation between these years and also due to the changes in fair value of investment properties in 2011. Our effective PRC enterprise income tax rate decreased to 23.9% in 2011 from 25.8% in 2010.

Profit for the Year

Profit for the year decreased by HK\$2,478.4 million, or 55.3%, to HK\$1,999.4 million in 2011 from HK\$4,477.8 million in 2010, as a result of the factors described above.

Liquidity and Capital Resources

We operate in a capital intensive industry and have historically financed the development of our projects and other capital expenditures primarily through a combination of (i) cash generated from operations, primarily from pre-sales; (ii) equity capital issues; (iii) borrowings from commercial banks and other financial institutions; (iv) issuance of debt instruments in capital markets; and (v) loans from shareholders and related companies. Our short-term liquidity requirements relate to servicing our debt and funding working capital requirements. Sources of short-term liquidity include cash balances and receipts from our operations. Our long-term liquidity requirements include partial funding of our investments in our property projects, which may include the optional Beijing Concord project, and repayment of long-term debt under our credit facilities. Sources of funding for our long-term liquidity requirements include new loans, equity or debt issues. We hold our cash and cash equivalents primarily in Renminbi, with the remaining held in Hong Kong dollars and U.S. dollars.

The following table presents our cash flow data for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,		
	2010	2011	2012	2012	2013	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	US\$'000
Net cash from (used in)						
operating activities	1,221,863	(529,625)	(385,649)	(292,344)	(304,922)	(39,314)
Net cash from (used in) investing activities	(1,094,252)	(317,943)	(369,827)	(224,706)	116,598	15,033
Net cash from (used in) financing activities	93,957	1,206,995	(394,145)	(422,214)	571,203	73,647
Cash and cash equivalents at end of the period	796,730	1,192,134	48,771	260,984	434,262	55,990

Operating Activities

June 30, 2013. Our net cash used in operating activities of HK\$304.9 million for the six months ended June 30, 2013 was primarily attributable to (i) a decrease of HK\$674.3 million in deposits received in sales of residential units due to the delivery of Chongqing Manhattan City Phase I and II; and (ii) an increase of HK\$281.3 million in properties under development for sales reflecting construction expenditure incurred in the first six months of 2013, partially offset by (i) a decrease of HK\$375.5 million in properties held for sales and (ii) operating cash flows before movements in working capital of HK\$259.4 million; and (iii) an increase of HK\$27.9 million in construction costs accruals. Changes in working capital is mainly attributable to an adjustment for changes in fair value of investment properties of HK\$547.1 million.

2012. Our net cash used in operating activities of HK\$385.6 million for 2012 was attributable to (i) a decrease of HK\$580.8 million in deposits received on sales of residential units due to the delivery of Chongqing Manhattan City Phase I and II; (ii) an increase of HK\$305.4 million in properties under development for sales reflecting construction expenditure incurred in 2012; and (iii) a decrease of HK\$119.2 million in construction costs accruals, partially offset by a decrease of HK\$417.2 million in properties held for sales and operating cash flows before movements in working capital of HK\$153.7 million. Changes in working capital is mainly attributable to an adjustment for changes in fair value of investment properties of HK\$2,089.5 million.

2011. Our net cash used in operating activities was HK\$529.6 million in 2011, primarily due to (i) an increase of HK\$718.8 million in properties under development for sales reflecting construction expenditure incurred in 2011; (ii) a decrease of HK\$695.7 million in deposits received on sales of residential units due to the delivery of Chongqing Manhattan City Phase I; partially offset by (i) a

decrease of HK\$618.9 million in properties held for sales; (ii) an increase of HK\$122.9 million in construction costs accruals; and (iii) our operating cash flows before movements in working capital of HK\$246.5 million. Changes in working capital is mainly attributable to an adjustment for changes in fair value of investment properties of HK\$2,385.2 million.

2010. Our net cash from operating activities was HK\$1,221.8 million in 2010, primarily comprised (i) an increase of HK\$1,717.5 million in deposits received on sales of residential units primarily due to the pre-sale of Chongqing Manhattan City; (ii) HK\$102.4 million in operating cash flows before movements in working capital; and (iii) an increase of HK\$83.4 million in other payables and accruals; partially offset by (i) an increase of HK\$553.6 million in properties under development for sales reflecting construction expenditure incurred in 2010; (ii) an increase of HK\$116.9 million in trade and other receivables; and (iii) HK\$41.1 million PRC taxes paid. Changes in working capital is mainly attributable to an adjustment for changes in fair value of investment properties of HK\$5,894.5 million.

Investing Activities

June 30, 2013. Our net cash from investing activities for the six months ended June 30, 2013 was HK\$116.6 million, primarily comprising (i) proceeds received from disposal of investment properties of HK\$33.5 million; (ii) withdrawal of pledged bank deposits of HK\$167.3 million and (iii) interest received of HK\$1.7 million, partially offset by (i) purchase of property, plant and equipment of HK\$1.7 million; (ii) additions to investment properties of HK\$83.2 million; and (iii) placement of pledged bank deposits of HK\$1.0 million.

2012. Our net cash used in investing activities for 2012 was HK\$369.8 million, primarily comprised (i) placement of pledged bank deposits of HK\$523.5 million; and (ii) additions to investing properties of HK\$82.7 million partially offset by withdrawal of pledged bank deposits of HK\$175.1 million.

2011. Our net cash used in investing activities in 2011 was HK\$317.9 million, primarily comprising (i) additions to investment properties of HK\$250.7 million; and (ii) placement of pledged bank deposits of HK\$60.8 million, partially offset by (i) withdrawal of pledged bank deposits of HK\$2.4 million; and (ii) interest received of HK\$4.8 million.

2010. Our net cash used in investing activities in 2010 was HK\$1,094.3 million, primarily due to additions to investment properties of HK\$1,109.7 million.

Financing Activities

Our financing activities mainly consist of borrowings from commercial banks and other financial institutions in China and in Hong Kong, borrowings from shareholders, and equity or debt offerings in the capital markets.

June 30, 2013. Our net cash from financing activities for the six months ended June 30, 2013 was HK\$571.2 million, primarily comprising (i) new borrowings raised of HK\$3,025.4 million; and (ii) advance from a shareholder of HK\$116.8 million, partially offset by (i) repayment of borrowings of HK\$2,330.0 million; (ii) interest paid of HK\$212.5 million and (iii) loan raised expenses of HK\$28.5 million.

2012. Our net cash used in financing activities for 2012 was HK\$394.1 million, primarily comprising (i) HK\$312.2 million interest paid; (ii) the repayment of HK\$1,032.6 million in borrowings; (iii) the repayment of HK\$538.9 million to a shareholder; and (iv) loan raised expenses of HK\$21.9 million, partially offset by (i) an increase of HK\$1,011.5 million in new bank loans raised; and (ii) advance of HK\$500.0 million from a shareholder.

2011. Our net cash from financing activities in 2011 was HK\$1,207.0 million, primarily consisted of advance of HK\$1,596.4 million from a shareholder, partially offset by HK\$303.3 million interest paid and a repayment of HK\$306.6 million in bank loans.

2010. Our net cash from financing activities in 2010 was HK\$94.0 million, due primarily to an increase of HK\$2,209.3 million in new bank loans raised, partially offset by (i) HK\$321.4 million interest paid; (ii) the repayment of HK\$205.4 million to a shareholder and (iii) repurchase of the fixed rate senior notes which amounted to HK\$1,503.8 million.

Capital Expenditures

Our capital expenditure consists of additions in non-current assets, which primarily consist of property, plant and equipment, lease prepayments, development in progress, properties held for sales and our investment properties. Our capital expenditures for 2010, 2011, 2012 and the six months ended June 30, 2013, totaled approximately HK\$2,040.3 million, HK\$1,302.0 million, HK\$797.9 million and HK\$709.4 million, respectively.

Indebtedness

Our indebtedness primarily consists of bank loans, which are generally secured, loans from other financial institutions, entrusted loan arrangements, shareholders loans and debt issuances in the capital markets, including convertible note and fixed rate senior notes.

As of June 30, 2013, we had HK\$6,865.9 million in outstanding debt. HK\$3,600.8 million is repayable within one year while the remaining are repayable within two to six years. Our net gearing ratio as of June 30, 2013 was 14.8%, determined as proportion of our net debt (after deducting bank balances and cash and pledged bank deposits) to shareholders' equity. The following table sets forth our debt as of June 30, 2013.

	As of June 30, 2013	
	HK\$'000	US\$'000
Current		
Bank borrowings	1,353,258	174,479
Other borrowings	1,198,889	154,576
Amount due to a shareholder	251,302	32,401
Fixed rate senior notes	797,311	102,799
Non-current		
Bank borrowings	714,666	92,144
Other borrowings	1,198,890	154,575
Convertible notes	295,566	38,108
Loan from a shareholder	<u>1,056,000</u>	<u>136,153</u>
Total debt.	<u><u>6,865,882</u></u>	<u><u>885,235</u></u>

Bank Borrowings and Other Borrowings

Our subsidiaries have entered into short-term and long-term banking facilities to fund the development of our projects. In the first six months of 2013, we obtained new bank and other borrowings with an aggregate principal amount of HK\$3,025.4 million and repaid HK\$2,330.0 million of bank and other borrowings. As of June 30, 2013, we had HK\$2,067.9 million in bank loans outstanding and HK\$2,397.8 million in other borrowings outstanding. The effective interest rates of our bank borrowings ranged from 4.77% to 8.40% per annum. Our other borrowings are secured and carry fixed interest rates with weighted average rate of 13.36% per annum. As of August 29, 2013, we had successfully raised an additional banking facility of HK\$315.5 million since June 30, 2013. A number of the loan and other financing agreements entered into by our subsidiaries contain covenants that require them to ensure that our Company meets certain financial tests and that restrict, or may restrict, among other things, such subsidiaries' ability to incur additional debt, create liens or other encumbrances on their properties, acquire other businesses, sell or otherwise dispose of assets at prices below certain thresholds, make certain payments and investments, pay dividends and merge or consolidate with other entities in certain circumstances. These restrictions may limit our subsidiaries' flexibility to utilize their cashflows.

2007 Notes

On April 27, 2007, we issued US\$300 million in aggregate principal amount of fixed rate senior notes. The notes bear interest at a fixed rate of 9.125% per annum. Interest on the notes is payable on May 4 and November 4 of each year. The notes will mature on May 4, 2014. The notes are guaranteed by certain of our subsidiaries outside of the PRC. On or after May 4, 2011, we may, at our option, redeem all or part of the notes at certain redemption prices.

In 2010, we repurchased an aggregate amount of US\$197,395,000 of such fixed rate senior notes pursuant to a tender offer and consent solicitation in which we also received consent to remove a majority of the restrictive covenants from the indenture governing those notes.

2012 Convertible Notes

We issued a HK\$500 million convertible note to a company wholly owned by Mr. Wong on August 14, 2012. The convertible note bears interest of 5% per annum and matures on the sixth anniversary of the issue date. The conversion price of the convertible note is HK\$2.42 per share. Both our Company and the subscriber have no early redemption rights on the convertible notes. Our Company shall repay the principal amount outstanding under the convertible notes to the subscriber together with all interest accrued on the maturity date. The convertible note contains two components, a liabilities component and a conversion option derivative. The effective interest rate of the liability component is 18.838% per annum. The conversion option derivative is measured at fair value with changes in fair value recognized in profit or loss.

Shareholder Loans and Advances

Mr. Wong provided loans in an aggregate amount of HK\$1,200 million to our Company through loan agreements entered into in 2011 and 2012. These loans are interest-free, unsecured and repayable after one year from December 31, 2012. On June 28, 2013, we entered into a supplemental loan agreement with Mr. Wong under which these loans are repayable after eighteen months from December 31, 2012. In addition to shareholder loans, from time to time we have received advances from Mr. Wong. As of June 30, 2013, the amount due to Mr. Wong under these advances is HK\$251.3 million which is repayable upon demand.

Contingent Liabilities

For properties that are still under construction, we typically provide guarantees to banks in connection with our customers' borrowing of mortgage loans to finance their purchase of our properties for an amount up to 70% of the total purchase price of the property. As of June 30, 2013, we guaranteed mortgage loans to purchasers of our properties in the aggregate outstanding principal amount of HK\$1,647.7 million. In the event of a default of a purchaser, we are responsible for repaying the outstanding mortgage principal amount together with accrued interest and penalties owed by the defaulting purchaser to the banks and we are entitled to take over the legal title and possession of the related properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers and completion of the registration of the mortgage by the purchasers with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. As of June 30, 2013, no guarantees were secured by our pledged bank deposits. If a purchaser defaults on the payment of its mortgage loan during the term of the guarantee, the bank holding the mortgage may demand us to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, we are able to retain the customer's deposit and sell the property to recover any amounts paid by us to the bank, but there can be no assurance that we would be able to sell any such property at a price equal to or greater than the amount necessary to pay off the defaulting purchaser's outstanding loan amount and any accrued interest thereon.

As of June 30, 2013, third party claims against us primarily consisted of litigation for an aggregate amount of approximately HK\$378.0 million in connection with disputes under certain construction contracts in the properties development operation during the normal course of business. See "Risk Factors — Risks Relating to our Business — We are currently facing legal claims from some of our contractors and may face other claims from our purchasers and suppliers, and we may be involved in government proceedings" and "Business — Legal Compliance and Proceedings."

Market Risks

Market risk is the risk of loss related to adverse changes in market prices, including interest rate and foreign exchange rates of financial instruments. We are exposed to various types of market risks in the normal course of business. For instance, we are exposed to market interest rate risks and market foreign currency risks attributable to our borrowings at variable interest rates and exchange rate movements on foreign currency denominated borrowings and operating expenses. We currently do not use derivatives to manage our exposure to market interest rate risk or foreign exchange risk.

Credit Risk

For properties that are still under construction, we typically provide guarantees to banks in connection with our customers' borrowing of mortgage loans to finance their purchase of our properties. See "— Indebtedness — Contingent Liabilities" and "Risk Factors — Risks Relating to Our Business — We guarantee mortgage loans of our customers and may be liable to the mortgagee banks if our customers default on their mortgage payments."

Interest Rate Risk

We are subject to market risks due to fluctuations in interest rates and refinancing of short-term debt. Our net profit is affected by changes in interest rates due to the impact such changes have on interest income and interest expense from short-term deposits and other interest-bearing financial assets and liabilities. In addition, an increase in interest rates would adversely affect our prospective

customers' willingness and ability to purchase our properties, our ability to service loans that we have guaranteed and our ability to raise and service long-term debt and to finance our developments, all of which in turn would adversely affect our results of operations.

Our borrowings consist primarily of bank loans, other borrowings, fixed rate senior notes and convertible notes. As of June 30, 2013, we had HK\$2,067.9 million in bank loans, of which HK\$992.3 million was denominated in Renminbi. The PBOC regulates the interest rates of our Renminbi-denominated borrowings.

The remaining HK\$1,075.6 million of our bank borrowings were denominated in U.S. dollars, with floating interest rates based on LIBOR as of June 30, 2013. As of June 30, 2013, we had HK\$2,397.8 million other interest-bearing borrowings.

Foreign Currency Exchange Rate Risk

Substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi, except for fixed rate senior notes, convertible note and conversion option derivative which are denominated in HK dollars and U.S. dollars. A depreciation of the Renminbi would, however, result in an increase in the price of imported goods and professional services that we purchase from our suppliers and foreign companies. We have not used any forward contract to hedge our exposure to currency risk. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Renminbi is not a freely convertible currency. The PRC government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. For a discussion of the foreign exchange system in the PRC and historical exchange rates, see "Exchange Rate Information". Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert foreign currencies into Renminbi for such purposes. Any significant depreciation in the exchange rates of the Renminbi against the U.S. dollar or the Hong Kong dollar could adversely affect the value of our dividends, which would be funded by Renminbi but paid in Hong Kong dollars. There can be no assurance that any future movements in the exchange rate of the Renminbi against the Hong Kong dollar, the U.S. dollar or other foreign currencies will not adversely affect our results of operations and financial condition (including ability to pay dividends). A significant depreciation in the Renminbi against major foreign currencies may have a material and adverse impact on our results of operations, financial condition and share price because our reporting currency is Hong Kong dollars and our shares are quoted in Hong Kong dollars.

Liquidity Risk

We are exposed to significant liquidity risk as of June 30, 2013, as we have net current liabilities of approximately HK\$307.5 million. Our policy is to regularly monitor current and expected liquidity requirements and our compliance with loan covenants, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and long term. See "Risk Factors — Risks Relating to Our Business — We have recorded, and may continue to record net current liabilities."

Inflation

Inflation in China has not had a material impact on our results of operations in the past periods. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the change in the Consumer Price Index in China, was 3.3%, 5.4%, 2.6% and 2.4% in 2010, 2011, 2012 and the first six months of 2013, respectively.

Off-Balance Sheet Arrangements

Except for the payment guarantees set forth under “— Indebtedness — Contingent Liabilities,” we have not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third parties.

Critical Accounting Policies

We have identified the accounting policies below as critical to our business operations and the understanding of our financial condition and results of operations. The preparation of our financial statements requires us to make difficult, complex and subjective judgments in selecting the appropriate estimates and assumptions that affect the amounts reported in our financial statements. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. While we believe our estimates and judgments to be reasonable under the circumstances, there can be no assurance that our judgments will prove correct or that actual results reported in future periods will not differ from our expectations reflected in our accounting treatment of certain items. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of companies in similar businesses.

Valuation of Properties under Development for Sales and Properties Held for Sales

Properties under development for sales and properties held for sales are stated at the lower of cost or net realizable value. Cost of each unit in each phase of development is determined using the weighted average method. The estimated net realizable value is the estimated selling price less selling expenses and estimated cost of completion (if any), which are estimated based on best available information. Where there are any decrease in the estimated selling price arising from any changes to the market conditions in the PRC, there may be impairment loss recognized on the properties under development for sales and properties held for sales.

Estimate of Fair Value of Investment Properties Under Construction

Investment properties under construction are mainly measured at fair value at the end of the reporting period using a residual method by independent professional valuers. Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In relying on the valuation report, the directors of our Company have exercised their judgment and are satisfied that the assumptions used in the valuation reflect market condition. Where there are any changes in the assumptions due to the market conditions in the PRC, the estimate of fair value of investment properties under construction may be significantly affected. In making the valuation, our management has made reference to the recent market condition. As of June 30, 2013, investment properties under construction of approximately HK\$49,603.2 million were revalued using a residual method.

Valuation of Investment Properties

Investment properties are completed properties that we hold in order to generate property rental income or leasehold land held for construction of properties held for rental purpose. Investment properties are stated at valuation on our balance sheet as non-current assets and are valued as of each balance sheet date by independent and qualified professionals at their open market value. Any change in the open market valuation is accounted for in the consolidated statement of comprehensive income. The valuation involves the exercise of professional judgment on the part of the valuation professional and involves the use of certain assumptions, such as making reference to comparable sales evidence available in the market. The open market values of our investment properties may be higher or lower if the valuation is conducted by other qualified professionals or based on different assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, we consider information from current prices in an active market for similar properties and use assumptions that are mainly based on market conditions existing as of each balance sheet date.

Cost of Sales of Residential Properties

Our properties held for sales and properties under development for sales are stated at the lower of their cost and their respective net realizable values. Cost includes all development expenditures, applicable borrowing costs and other direct common costs attributable to such properties. When developing our properties, we typically divide the properties into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to each phase are allocated to each phase based on the estimated gross development value (“GDV”) of each phase as a percentage of the total estimated GDV of the entire project. The said estimated GDV of the properties of each phase is made by reference to the valuation determined by qualified valuer. Cost of the unit sold is determined by the floor area in square meters sold during the year times the average cost per square meter of that particular phase of the project.

Land Appreciation Taxes

PRC land appreciation tax (“LAT”) 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 land costs, borrowing costs and all property development expenditure.

We are subject to LAT in the PRC which has been included in our income tax expenses. Significant judgment is required in determining the amount of land appreciation and the related taxes. We recognize these liabilities based on the management’s best estimates. Where the final outcome of this matter is different from the amounts that were initially recorded, such differences will impact the income tax expense in the period in which such determination is made.

Provision for Legal Disputes and Contingent Liabilities under Construction Contracts

As of June 30, 2013, we were subject to several legal claims in connection with disputes under certain construction contracts for some of our property developments for an aggregate amount of approximately HK\$378.0 million. Determining whether a provision for construction costs in dispute is necessary requires an estimation of the probability that an outflow of resources embodying economic benefits to be required for settling the obligation and an estimation of the amount of the obligation which can be measured reliably at the end of the reporting period. Based on advice from our independent legal advisors, these legal claims are still in the preliminary stage and a final outcome is unable to be determined at this stage. In the opinion of the directors of the Company, we

have a possible obligation in relation to these legal disputes. However, a sufficiently reliable estimate of the amount of the obligation cannot be made at the end of the reporting period. As a result, we have disclosed this amount under contingent liabilities, and no related amount has been included in construction costs accruals nor has any provision been made in the consolidated financial statements.

INDUSTRY OVERVIEW

The information in the section below has been derived, in part, from various government publications unless otherwise indicated. This information has not been independently verified by us or the Initial Purchaser or any of our and the Initial Purchaser's respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.

China's Economy

The PRC economy has grown significantly since the PRC government introduced economic reforms in the late 1970s. China's accession to the World Trade Organization in 2001 has further accelerated the reform of the PRC economy and China has since then witnessed increasing inflows of foreign investment across all sectors of the economy. China's nominal gross domestic product ("GDP") increased at a CAGR of approximately 14.3% from approximately RMB26,581.0 billion in 2007 to approximately RMB51,932.2 billion in 2012, making China one of the fastest growing economies in the world.

The following table sets forth selected economic indicators of the PRC for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Nominal GDP						
(RMB in billions) . . .	26,581.0	31,404.5	34,090.3	40,151.3	47,310.4	51,932.2
Real GDP Growth Rate						
(%) (year-on-year) . . .	14.2	9.6	9.2	10.4	9.3	7.8
Nominal GDP per						
Capita (RMB)	20,169.5	23,707.7	25,607.5	30,015.0	35,197.8	38,448.5
Foreign Direct						
Investment						
(US\$ in millions)	83,521.0	108,312.4	94,065.0	105,735.2	116,009.9	111,716.1
Fixed Asset Investment						
(RMB in billions)	13,732.4	17,282.8	22,459.9	27,812.2	31,148.5	37,467.6

Source: CEIC; National Bureau of Statistics; Ministry of Commerce

During each of the years from 2003 to 2007 and in 2010, China's real GDP recorded double-digit growth. In 2008, the global economic crisis caused a slowdown in the world economy and the global capital and credit markets, which in turn adversely affected the domestic market in China. In 2008, China's real GDP growth declined significantly to 9.6% compared to 14.2% in 2007. In response to the negative impact of the global economic crisis on the PRC economy, the PRC government implemented a series of measures designed to boost domestic consumption and demand, including a RMB4.0 trillion economic stimulus plan in November 2008. Under the economic stimulus plan, the PRC economy showed signs of recovery. The rate of China's real GDP growth grew to 10.4% in 2010 from 9.2% in 2009. However, combined concerns over sovereign debt issues in Europe and general sluggishness in the world economy have impeded China's economic growth. The rate of real GDP growth slowed again to 9.3% in 2011 and further dropped to 7.8% in 2012.

Real Estate Reform in China

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.

From 1993 to 2003, the PRC government began to issue new rules regulating the real estate market, such as the regulations regarding the transfer of real estate promulgated in 1995, the regulations to standardize the quality of construction projects promulgated in 2000 and the regulations relating to the sale of commodity housing promulgated in 2001. From 2003 to 2005, the PRC government introduced the rules to grant land use rights by way of tender, auction or listing-for-sale and started to adjust the supply structure of land and residential properties to stabilize the housing prices. Since 2006, policies on tax, real estate loans and individual residential housing loans, land supply and other aspects were put in place to control housing prices. These policies included increased loan interest rates, policies on the size of housing units, enhanced supervision of the foreign-invested real estate industry and individual income tax on property transfers. The PRC government has since continued the strict enforcement of policies on tax, loans, land supply and other aspects to control the increase of housing prices. In early 2011, a notice was issued to restrict the number of properties one family can purchase. To continue to regulate the real estate market, another notice was issued in 2013 to emphasize the enforcement of, among other things, the individual income tax on property transfers, commodity housing purchase restrictions and the supply of affordable housing. See “Regulations — Measures on Property Price Stabilization.”

Growth of the Real Estate Market in China

Urbanization

Urbanization in China has increased rapidly as a result of the economic reforms that began in the late 1970s. China’s urban population grew from 606.3 million in 2007 to 711.8 million in 2012. The urbanization rate in the PRC reached approximately 51.3% in 2011 and further increased to 52.6% in 2012. According to a report sponsored by the China Population and Development Research Center, a public institution affiliated with the National Population and Family Planning Commission, the urbanization rate will climb to almost 60.0% by 2020, bringing the country’s urban population to approximately 850.0 million. As such, demand for urban properties is expected to rise further.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Urban Population (in millions). . . .	606.3	624.0	645.1	669.8	690.8	711.8
Total Population (in millions)	1,321.3	1,328.0	1,334.5	1,340.9	1,347.4	1,354.0
Urbanization Rate (%)	45.9%	47.0%	48.3%	49.9%	51.3%	52.6%
Urban Disposable Income per Capita (RMB).	13,785.8	15,780.8	17,174.7	19,109.4	21,809.8	24,564.7

Source: CEIC; National Bureau of Statistics

Demand, Supply and Price

The favorable economic environment in the PRC, characterized by continued growth in per capita disposable income, rising living standards and rapid urbanization, has fueled the growth of the PRC property market. From 2007 to 2012, investment in residential properties grew at a CAGR of 22.4%, increasing from RMB1,800.5 billion in 2007 to RMB4,937.4 billion in 2012. In 2012, a total of approximately 984.7 million sq.m. of residential GFA was sold, representing a substantial increase as compared to the approximately 701.4 million sq.m. sold in 2007. During the same period, total GFA of commercial properties sold increased from approximately 46.4 million sq.m. to approximately 77.6 million sq.m.

Prices for real estate in the PRC also experienced rapid growth between 2007 and 2012, with average selling prices of residential properties growing at a CAGR of 8.3% over the same period, increasing from RMB3,645.2 per sq.m. in 2007 to RMB5,429.9 per sq.m. in 2012. The average selling price of all commercial properties increased from RMB5,773.8 to RMB9,021.8 during the same period.

As a result, the PRC property industry witnessed significant growth in revenue from the sale of properties, with average from sales of residential properties increasing from RMB2,556.6 billion in 2007 to RMB5,346.7 billion in 2012. The revenue from sales of commercial properties increased from RMB268.2 billion to RMB700.0 billion.

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Real Estate Investment						
(RMB in billions)	2,528.9	3,120.3	3,624.2	4,825.9	6,179.7	7,180.4
Total GFA of Commercial						
Properties Sold (sq.m. in millions)	46.4	42.1	53.3	69.9	78.7	77.6
Total GFA of Residential Properties						
Sold (sq.m. in millions)	701.4	592.8	861.8	933.8	965.3	984.7
Investment in Commercial						
Properties (RMB in billions)	278.6	335.4	418.1	564.8	742.4	931.2
Investment in Residential Properties						
(RMB in billions)	1,800.5	2,244.1	2,561.4	3,402.6	4,432.0	4,937.4
Average Price of Commercial						
Properties (RMB per sq.m.)	5,773.8	5,886.0	6,871.0	7,747.0	8,488.2	9,021.8
Average Price of Residential						
Properties (RMB per sq.m.)	3,645.2	3,576.0	4,459.0	4,725.0	4,993.2	5,429.9
Revenue from Sales of Commercial						
Properties (RMB in billions)	268.2	247.6	366.1	541.9	667.9	700.0
Revenue from Sales of Residential						
Properties (RMB in billions)	2,556.6	2,119.6	3,843.3	4,412.1	4,819.8	5,346.7

Source: CEIC; National Bureau of Statistics

Property demand began to weaken in certain parts of China in the first half of 2008, and deteriorated substantially in the second half of 2008, primarily due to a significant decline in consumer confidence in China as China's economy was negatively affected by the global economic crisis. Nonetheless, in 2009, China's property market rebounded in terms of both aggregate GFA

and average price of commercial properties sold. The average price of commercial properties sold increased to RMB9,021.8 per sq.m. in 2012 from RMB8,488.2 per sq.m in 2011. Beginning in late 2009, the PRC government introduced a series of austerity measures in view of increasing concerns about the overheating of the property sector. As a result, China's property market showed a general slowdown in growth beginning in the second quarter of 2010. The aggregate GFA of commercial properties sold in 2012 decreased by 1.4%, compared to growth of 12.6% and 31.1% in 2011 and 2010, respectively. The annual growth rate of the average selling price per sq.m. of commercial properties sold decreased to 6.3% in 2012 from 9.6% in 2011 and 12.7% in 2010.

Shanghai Real Estate Market

Shanghai is situated on the banks of the Yangtze River Delta in eastern China, bordering Jiangsu and Zhejiang provinces. The municipality covers a total area of approximately 6,340.5 square kilometers and had a population of approximately 23.8 million people in 2012. Shanghai is one of the four municipalities under the direct administration of the PRC central government.

Shanghai is an important financial and trading center in China. The city offers the headquarters of the country's foreign exchange trading system and a major commodities futures exchange. The Shanghai Stock Exchange is China's largest stock exchange in terms of number of listed companies, number of shares listed and total market value of shares traded.

The pillar industries in Shanghai are manufacturing of electronic and information-technology products, auto making, petrochemical and fine chemical processing, fine steel products manufacturing, production of complete equipment and biomedicine. According to the municipal government of Shanghai, the services industry, which represented 60.0% of the local GDP in 2012, has also become a key driver of Shanghai's economy. The financial and information/software sectors grew by 12.6% and 16.5%, respectively, representing 20.3% and 7.6%, respectively, of the services industry. The wholesale and retail sectors grew by 11.5%, while the transport, logistics and mail delivery sector grew by 5.0%, representing 27.3% and 7.4%, respectively, of the services industry. The sector that encompasses technology and education services, tourism, exhibition and convention services grew by 11.4%.

The city also experienced strong growth in foreign direct investment. Shanghai's foreign direct investment nearly doubled from US\$7,920.0 million in 2007 to US\$15,185.0 million in 2012.

Shanghai has an extensive public transport system, which utilizes buses, taxis, and a rapidly expanding metro system. The Shanghai Metro rapid-transit system and elevated light rail has 12 lines at present. Shanghai opened the first commercial Maglev railway in the world in 2003, from Longyang Road subway station in Pudong to Pudong International Airport. The 30-kilometer trip takes seven minutes and 21 seconds and reaches a maximum speed of 431 kilometers per hour.

Shanghai is also a popular tourist destination renowned for its historical landmarks such as the Bund and Yuyuan Garden, and its extensive and growing Pudong skyline. Shanghai hosted the World Expo in 2010, attracting 73.0 million visitors.

Key Statistics

The table below sets forth key economic statistics for Shanghai for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Nominal GDP (RMB in billions) . .	1,249.4	1,407.0	1,504.6	1,716.6	1,919.6	2,010.1
Real GDP Growth Rate (%)						
(year-on-year)	15.2	9.7	8.2	10.3	8.2	7.5
Nominal GDP per Capita (RMB) . .	62,041.0	66,932.0	69,164.0	76,074.5	82,560.0	84,444.0
Population (in millions)	20.6	21.4	22.1	23.0	23.5	23.8
Urban Population (in millions) . . .	16.5	16.7	17.0	20.6	21.0	N/A
Urban Disposable Income per						
Capita (RMB)	23,622.7	26,674.9	28,837.8	31,838.1	36,230.5	40,188.3
Urban Consumer Expenditure per						
Capita (RMB)	17,255.4	19,397.9	20,992.4	23,200.4	25,102.1	26,253.5
Foreign Direct Investment						
(US\$ in millions)	7,920.0	10,084.0	10,538.0	11,121.0	12,601.0	15,185.0
Retail Sales (RMB in billions)	387.3	457.7	517.3	607.0	681.5	738.7
Total Tourist Arrivals (people in						
thousands)	5,201.0	5,246.7	5,333.9	7,337.2	6,686.1	6,512.4

Source: CEIC; National Bureau of Statistics; Ministry of Commerce

The table below sets forth key statistics relating to the residential property market in Shanghai for the periods indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Investment in Residential Real						
Estate (RMB in billions)	83.8	84.4	91.9	123.0	146.6	145.2
Residential GFA Completed						
(sq.m. in millions)	27.5	17.6	15.1	14.0	15.5	16.1
Residential GFA Under						
Construction (sq.m. in millions) .	76.4	68.7	65.5	73.1	83.9	83.2
Residential GFA Sold						
(sq.m. in millions)	32.8	19.7	29.3	16.9	15.0	15.9
Average Price of Residential						
Properties (RMB/sq.m.)	8,253.0	8,115.0	12,364	14,290.0	13,565.8	13,869.9

Source: CEIC; National Bureau of Statistics

The table below sets forth key statistics relating to the commercial property market in Shanghai for the periods indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Investment in Commercial Real Estate (RMB in billions)	15.9	17.3	18.5	24.5	25.2	29.4
Commercial GFA Completed (sq.m. in millions)	2.6	2.2	2.0	1.8	2.3	1.8
Commercial GFA Under Construction (sq.m. in millions)	11.3	12.2	11.1	12.9	13.7	14.5
Commercial GFA Sold (sq.m. in millions)	2.0	1.2	1.3	1.3	0.9	1.2
Average Price of Commercial Properties (RMB/sq.m.)	6,613.0	6,610.0	15,237.0	15,779.0	19,526.8	16,218.0

Source: CEIC; National Bureau of Statistics

Chongqing Real Estate Market

Chongqing is located on the upper reaches of the Yangtze River and is considered southwest China's largest industrial and commercial center, communication hub and inland port. By the end of 2012, the city had a population of 29.5 million and covered an area of 82,400 square kilometers.

Chongqing's territory is divided into 19 districts, 17 counties and four autonomous counties. These districts and counties create an urban cluster resulting in a city with the most number of administrative districts and the largest population in China. Chongqing is the only transportation hub in western China that integrates water, land and air transportation. Several trunk railways and artery expressways meet in Chongqing.

Chongqing was one of China's industrial bases and now is strengthening its five backbone industries: automobile and motorcycle, chemical and pharmaceutical, construction and building material, food and tourism. Chongqing is also expediting the development of high-tech industries such as information technology, bioengineering and environmental engineering.

The strong GDP growth of 13.6% in 2012 placed Chongqing as the fastest growing city in western China and tied with Guizhou as the second fastest growing city in China, according to the Chongqing Municipal Bureau of Statistics. The communications, computer and electronic equipment manufacturing industries helped drive this growth with an output growth rate as high as 89.9% and the automobile manufacturing industry realizing an output growth of 11.8%. From January to November in 2012, the city's above-scale industrial enterprises realized a total profit of RMB46.2 billion. Foreign direct investment flowing to Chongqing reached US\$10,533.0 million in 2012.

Key Statistics

The table below sets forth key economic statistics for Chongqing for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Nominal GDP (RMB in billions) . .	467.6	579.4	653.0	792.6	1,001.1	1,145.9
Real GDP Growth Rate (%) (year-on-year)	15.9	14.5	14.9	17.1	16.4	13.6
Nominal GDP per Capita (RMB) . .	16,629.0	20,490.0	22,920.0	27,596.0	34,500.0	39,083.0
Population (in millions)	28.2	28.4	28.6	28.8	29.2	29.5
Urban Population (in millions) . . .	13.6	14.2	14.7	15.3	16.1	16.8
Urban Disposable Income per Capita (RMB)	12,590.8	14,367.6	15,748.7	17,532.4	20,249.7	22,968.1
Urban Consumer Expenditure per Capita (RMB)	9,890.3	11,146.8	12,144.1	13,335.0	14,974.5	16,573.1
Foreign Direct Investment (US\$ in millions)	1,028.6	2,452.0	3,375.8	3,770.9	5,825.8	10,533.0
Retail Sales (RMB in billions)	171.1	214.7	247.9	293.9	348.8	396.1
Total Tourist Arrivals (people in thousands)	761.7	871.9	1,048.1	1,370.2	1,864.0	2,242.8

Source: CEIC; National Bureau of Statistics; Ministry of Commerce

The table below sets forth key statistics relating to the residential property market in Chongqing for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Investment in Residential Real Estate (RMB in billions)	52.2	62.0	78.9	109.1	143.8	170.7
Residential GFA Completed (sq.m. in millions)	17.7	19.5	23.8	21.8	28.3	33.9
Residential GFA Under Construction (sq.m. in millions) .	81.8	91.7	103.4	137.4	159.2	170.0
Residential GFA Sold (sq.m. in millions)	33.1	26.7	37.7	39.9	40.6	41.1
Average Price of Residential Properties (RMB/sq.m.)	2,588.2	2,640.0	3,266.0	4,040.4	4,492.3	4,804.8

Source: CEIC; National Bureau of Statistics

The table below sets forth key statistics relating to the commercial property market in Chongqing for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Investment in Commercial Real Estate (RMB in billions)	26.7	24.0	20.1	33.6	29.7	N/A
Commercial GFA Completed (sq.m. in millions)	2.7	2.2	2.6	2.3	3.0	2.8
Commercial GFA Under Construction (sq.m. in millions)	13.0	12.5	13.4	15.5	19.6	20.3
Commercial GFA Sold (sq.m. in millions)	1.7	1.3	1.6	1.9	2.7	2.2
Average Price of Commercial Properties (RMB/sq.m.)	5,134.7	5,432.0	7,145.0	8,003.2	8,132.3	9,575.6

Source: CEIC; National Bureau of Statistics

Beijing Real Estate Market

Beijing, China's capital, is a municipality that covers an area of approximately 16,808 square kilometers and had a total population of approximately 20.7 million in 2012. Beijing serves as the political, cultural and economic center of China, and is one of the country's most dynamic and competitive regions. In 2012, Beijing ranked 17th on PricewaterhouseCooper's 2012 Cities of Opportunity list, which covered the world's 27 major cities, including New York, Paris and London.

The city's Chaoyang District, where the Central Business District is located, has 277 foreign-invested financial institutions, accounting for 65.0% of the city's total. By the end of 2011, the number of foreign capital banks in Beijing reached 94, with total assets of RMB291.1 billion.

Beijing is also able to attract large amounts of foreign investment, which has greatly contributed to the city's economic development. In 2012, foreign direct investment increased to US\$8,040.0 million from US\$7,054.5 million in 2011. In the same year, Beijing had 25,672 foreign-invested companies, a 3.3% increase, and registered capital rose 12.4% to US\$80.3 billion. Beijing is also the headquarters for 13,792 overseas enterprises.

A city with abundant tourist attractions, such as the Great Wall, Tiananmen Square and numerous Olympic sites, Beijing is a top destination for tourists. In 2011, the city received a total of 5.2 million tourists, a 6.2% increase over the previous year. Beijing's total revenue from tourism exceeded RMB300.0 billion in 2011 and increased to more than RMB360.0 billion in 2012, accounting for approximately 18.7% and 20.2%, respectively, of the city's nominal GDP for those years.

Key Statistics

The table below sets forth key economic statistics for Beijing for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Nominal GDP (RMB in billions) . .	984.7	1,111.5	1,215.3	1,411.4	1,600.0	1,780.1
Real GDP Growth Rate (%) (year-on-year)	14.5	9.1	10.2	10.3	8.1	7.7
Nominal GDP per Capita (RMB) . .	60,096.0	64,491.0	66,940.0	73,856.0	81,658.0	87,091.0
Population (in millions)	16.3	17.0	17.6	19.6	20.2	20.7
Urban Population (in millions) . . .	13.8	14.4	14.9	16.9	17.4	17.8
Urban Disposable Income per Capita (RMB)	21,988.7	24,724.9	26,738.5	29,072.9	32,903.0	36,468.8
Urban Consumer Expenditure per Capita (RMB)	16,317.3	16,460.3	17,893.3	19,934.5	21,984.4	24,045.9
Foreign Direct Investment (US\$ in millions)	5,065.7	6,081.7	6,120.9	6,363.6	7,054.5	8,040.0
Retail Sales (RMB in billions)	383.5	464.6	531.0	622.9	690.0	770.3
Total Tourist Arrivals (people in thousands)	4,354.8	3,790.4	4,125.1	4,900.7	5,204.0	5,008.6

Source: CEIC; National Bureau of Statistics; Ministry of Commerce

The table below sets forth key statistics relating to the residential property market in Beijing for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Investment in Residential Real Estate (RMB in billions)	99.2	94.1	90.7	150.9	177.8	162.8
Residential GFA Completed (sq.m. in millions)	18.5	14.0	16.1	15.0	13.2	15.2
Residential GFA Under Construction (sq.m. in millions) .	59.1	55.4	55.5	61.8	71.7	75.1
Residential GFA Sold (sq.m. in millions)	17.3	10.3	18.8	12.0	10.3	14.8
Average Price of Residential Properties (RMB/sq.m.)	10,661.2	11,648.0	13,224.0	17,151.1	15,517.9	16,553.5

Source: CEIC; National Bureau of Statistics

The table below sets forth key statistics relating to the commercial property market in Beijing for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Investment in Commercial Real Estate (RMB in billions)	26.7	24.0	20.1	33.6	29.7	27.6
Commercial GFA Completed (sq.m. in millions)	3.2	3.1	3.2	2.7	2.3	2.4
Commercial GFA Under Construction (sq.m. in millions)	14.8	14.3	13.2	12.3	11.9	12.4
Commercial GFA Sold (sq.m. in millions)	1.3	1.1	1.6	1.4	1.1	1.1
Average Price of Commercial Properties (RMB/sq.m.)	17,584.9	17,148.0	19,091.0	22,452.4	24,919.6	20,475.7

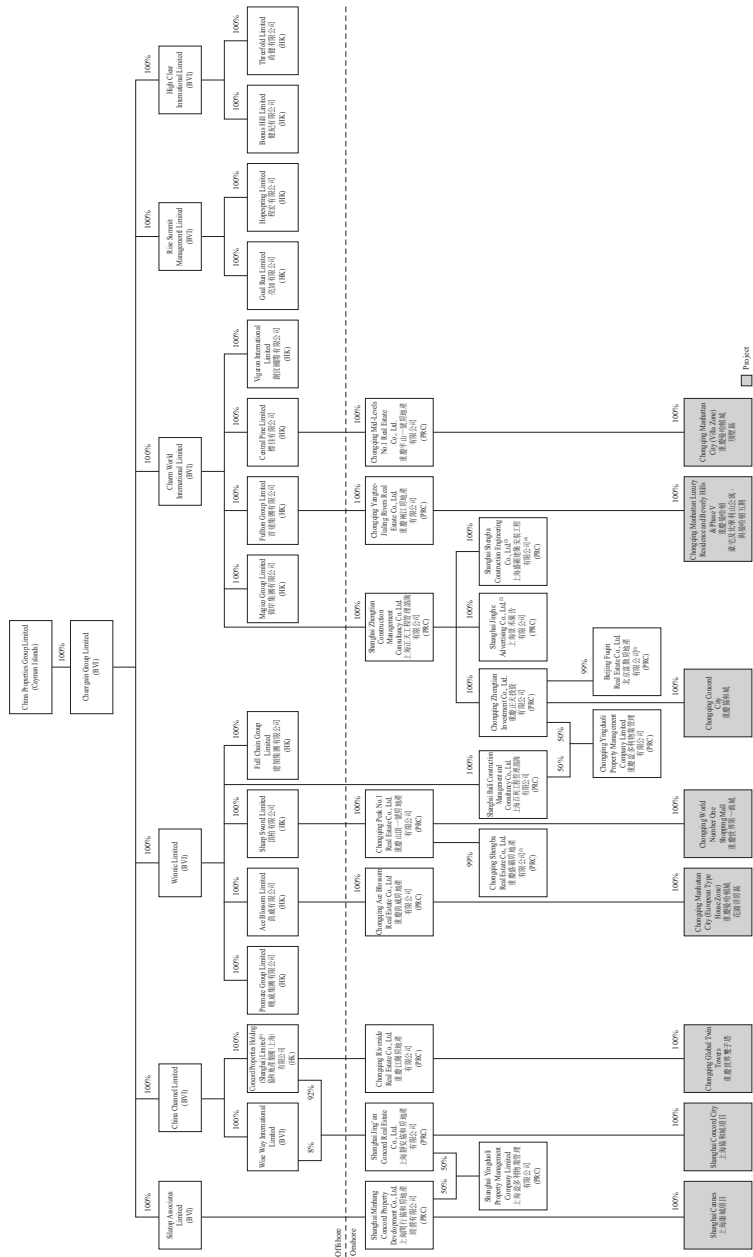
Source: CEIC; National Bureau of Statistics

DESCRIPTION OF THE GROUP

Our Company was incorporated in the Cayman Islands on March 14, 2005 as an exempted company with limited liability and subsequently became the holding company of our Group. Our Group comprises eight material operating subsidiaries.

Below is the simplified corporate structure chart of our Group, which does not show certain immaterial subsidiaries, as of June 30, 2013.

Simplified Group Chart for China Properties Group Limited as of June 30, 2013



Note:

- (1) Certain non-voting shares in this company are held by Mr. Wong's associate.
- (2) These companies are owned by certain of our current and former employees and have been entrusted to us through entrustment agreements with such employees.
- (3) Chongqing Shengba Real Estate Co., Ltd. is in the process of deregistration.
- (4) Shanghai Shengba Construction Engineering Co., Ltd. (“Shanghai Shengba”) has not conducted its annual inspection since 2009 and, therefore, its business license has been revoked. We have decided to deregister Shanghai Shengba.
- (5) Beijing Fuqin Real Estate Co., Ltd. (“Beijing Fuqin”) did not conduct its 2012 annual inspection within the time prescribed by Regulations on Registration Administration of Companies of the PRC (“《中華人民共和國公司登記管理條例》”) and is currently in the process of fulfilling the requirements under the 2012 annual inspection. According to the relevant PRC law, if a company fails to conduct its annual inspection pursuant to relevant regulations, a fine ranging from RMB10,000 to RMB100,000 may be imposed on the company and its business license may be revoked. As of the date of this offering circular, neither Beijing Fuqin has been fined nor has its business license been revoked.

BUSINESS

Overview

We are a property development and investment company in China focusing on developing and creating high-quality, large-scale residential and commercial projects in strategic locations in Shanghai and Chongqing. We design our properties based on themes and concepts drawn from different cultures. Our properties are designed to target the significant and growing population of middle- and upper-middle-class purchasers and consumers in China, who we believe are attracted to a modern and upscale lifestyle and atmosphere. Our overall objectives are to exploit business opportunities, achieve sales growth and enhance rental income.

In selecting the locations of our residential projects, our focus is on suburban areas of major cities that we believe offer convenient transportation, particularly via subway and rail. We design our commercial properties with a view to attracting customers that are interested in luxury goods and services. Accordingly, we only select locations for our commercial development that we believe are among the most well-known commercial locations within a city.

We have in the past focused, and intend to continue to focus, on developing the following:

- **High-end and sizeable middle- and upper-middle-class residential projects.** These are high-end and well-located residential projects that target the growing middle- and upper-middle class in China. One characteristic of these projects is the use of distinct landscape and interior design features that are based on varying themes and motifs. Our projects include themes such as “hill-top,” “islands” and “lakeside.” In addition, we seek to develop a comprehensive community around each of our residential projects by developing community facilities such as schools, medical service centers, sporting venues and restaurants. We believe our projects provide high-quality living conditions in attractive environments.
- **Modern and upscale themed shopping street developments.** These are typically modern, well-designed architectural projects located on prime retail streets in major cities in China, which are intended to include areas for retail, residential, office, hotel, entertainment, cultural and recreational uses with great accessibility. Our aim is to make each of these projects a focal point for the entire district to attract residential, retail, commercial and business operations.

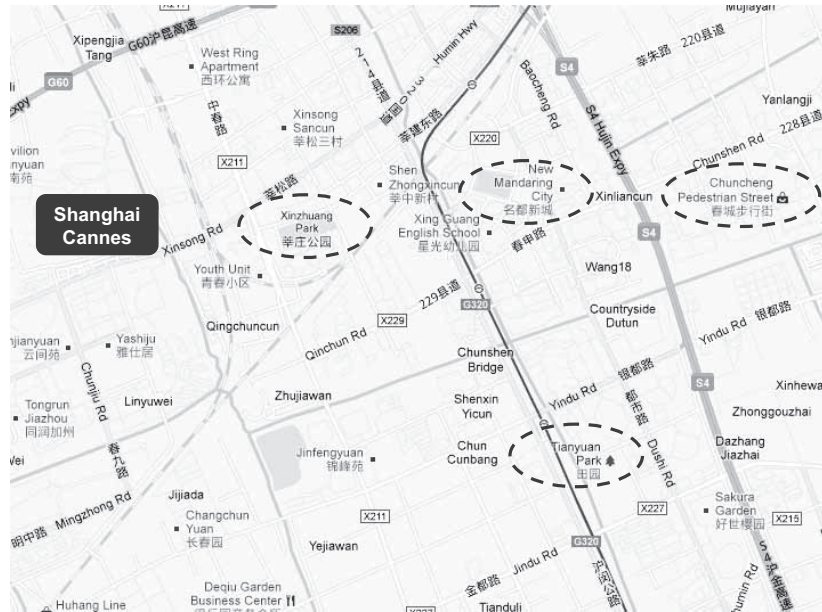
By designing our developments to include such concepts, we seek to distinguish our developments from those of our competitors, enhance our brand name and improve our results of operations.

Our current property projects consist of the following:

- **Shanghai Cannes.** We are developing this large-scale residential community with supporting retail areas on a site located in the Minhang District of Shanghai. This project has five phases with different themes, and is expected to comprise a total GFA of approximately 1,984,313 sq.m. The construction and development of Phases I to IV has been completed and all the residential and part of the retail portions, comprising a GFA of 1,522,717 sq.m., have been sold and delivered. Phase V is currently under planning, with completion expected between 2015 and 2016.

- Shanghai Concord City. We are developing this large-scale integrated retail, residential, office and hotel project located on West Nanjing Road, one of the most well-known shopping streets in Shanghai. This project is expected to comprise a total GFA of approximately 412,918 sq.m. We aim to establish Shanghai Concord City as one of the largest and highest-quality integrated retail, residential and commercial developments in Shanghai. The construction and development of Phase I, comprising a GFA of 64,332 sq.m., has been completed, of which 12,382 sq.m. of residential properties have been sold and delivered. Phase II North Wing, comprising a GFA of 63,356 sq.m., is currently under development, with completion expected in the fourth quarter of 2013 and Phase II South Wing is currently under planning, with completion expected between 2015 and 2017.
- Chongqing Manhattan City. We are developing this large-scale residential and retail community in Ba'nán District in Chongqing. This project is expected to include one of the largest shopping complexes in Chongqing with large indoor recreational facilities, featuring five uniquely themed retail streets. This project is expected to be constructed in five phases with a total GFA of approximately 2,604,661 sq.m. The construction and development of Phase I and a portion of Phase II, together comprising a GFA of 710,317 sq.m., has been completed, of which 479,559 sq.m. of residential properties have been sold and delivered. Phases III to V are expected to be completed in stages between 2014 and 2017.
- Chongqing Concord City. We are developing this large-scale integrated residential, retail, office and hotel project in the People's Liberation Monument area of Chongqing. This project is expected to have a total GFA of approximately 408,927 sq.m. and is expected to be completed between 2015 and 2017.
- Chongqing Global Twin Towers. We are developing this large-scale integrated residential, retail, office and hotel project conveniently located in Nan'an District in Chongqing. This project is expected to have a total GFA of approximately 1,947,900 sq.m., and is planned to feature one of the tallest buildings in the world at 528 meters tall as well as mixed-use retail and leisure space. This project is expected to be completed between 2015 and 2018.

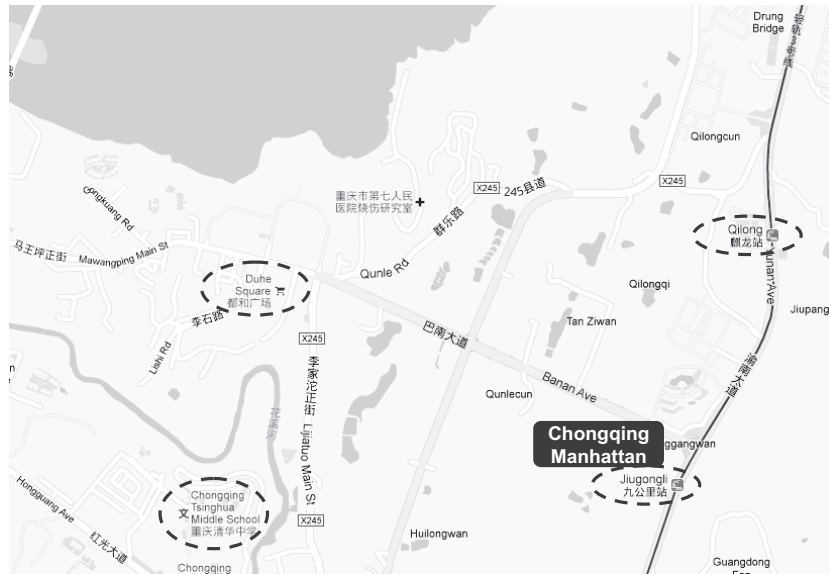
The following map shows the location of Shanghai Cannes.



The following map shows the location of Shanghai Concord City.



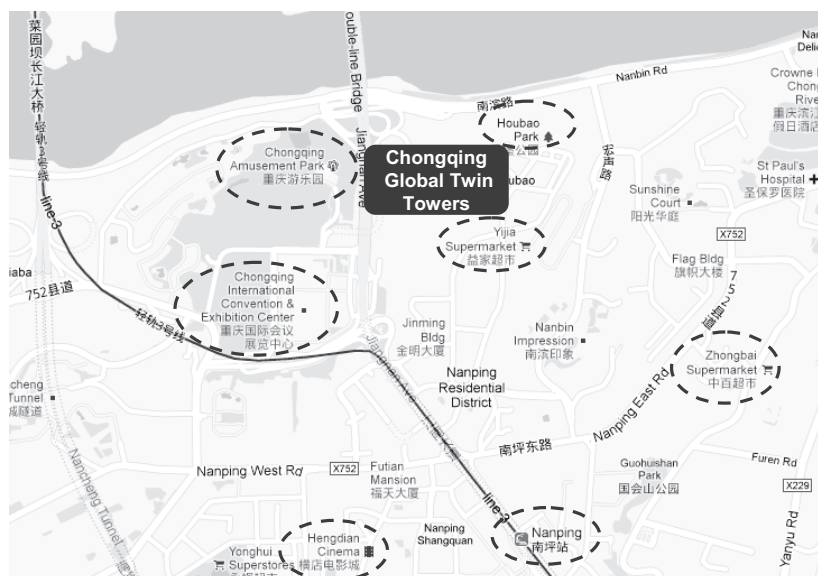
The following map shows the location of Chongqing Manhattan City.



The following map shows the location of Chongqing Concord City.



The following map shows the location of Chongqing Global Twin Towers.



In addition, we have been granted the Beijing Concord Option by Mr. Wong, under which we have the option to acquire a 50% equity interest in the project company that owns the rights to a proposed property development project on Xidan Street in Beijing. The project is on a site area of over 80,000 sq.m. with a proposed GFA of approximately 347,595 sq.m., including over 130,000 sq.m. of retail space. The Beijing Concord Option is exercisable by us at any time before the expiry of 12 months after valid land use rights certificates to develop the whole property subject to the land grant contract have been granted.

We earn revenue primarily from the sales of our properties, particularly residential properties. In addition, we earn revenue by leasing our investment properties and by providing property management services to occupiers of our properties. In 2010, 2011, 2012 and the first six months of 2013, we recorded revenue of HK\$207.3 million, HK\$983.8 million, HK\$692.8 million and HK\$700.8 million, respectively, with sales of properties accounting for approximately 87.3%, 97.7%, 97.3% and 98.8%, respectively, of total revenue.

While we intend to continue to focus on our property sales business, we also seek to diversify by retaining an increasing proportion of our properties for investment purposes. We believe such diversification will broaden our revenue base and provide a source of recurring revenue that may be more stable than revenue from sales of properties, which may be more susceptible to market fluctuations and economic cycles.

Our Competitive Strengths

Our developments are situated in strategic locations.

We consider the locations of our developments to be fundamental to their success. In selecting development sites for our residential projects, we focus on the suburban areas of major cities that offer convenient transportation, particularly via subway and rail. We design our commercial properties with a view to attracting customers that are interested in luxury goods and services.

Accordingly, we only select commercial locations for development that we believe are among the most well-known commercial locations within a major city. The locations of our current developments are consistent with these criteria:

- Shanghai Cannes is located in Minhang District, a fast-growing suburban residential area in Shanghai, and is accessible via two major roads and several means of public transport, including rail and subway.
- Shanghai Concord City is centrally located on West Nanjing Road of Jingan District, one of the most well-known shopping streets in Shanghai, and is accessible via several means of public transportation, including bus and subway.
- Chongqing Manhattan City is centrally located on Lijiu Road and is at the interchange of major light rail lines, making it a key transportation hub of South Chongqing in the future. It also has direct access to Nanping, Yuzhong, Yangjiaping and other key suburban and urban districts via over 20 bus lines.
- Chongqing Concord City is strategically located near the People's Liberation Monument, which is a World War II victory monument and a landmark of Chongqing. This project has direct access to subway and light rail, and is within walking distance to several bus stations heading to Nan'an, Jiangbei and other districts.
- Chongqing Global Twin Towers is conveniently located on Jiangnan Avenue with direct access to a subway station which is under construction and another potential subway station of another subway line. It is also within walking distance of several bus stops.

We believe the locations of all our current projects and other strategically located sites that we may pursue in the future will assist us in creating projects that attract strong interest among buyers and tenants, thus enhancing and maximizing our revenue and profitability.

The large scale of our developments provides us with greater economies of scale, the ability to incorporate design features, and other advantages.

We seek to distinguish ourselves from our competitors by focusing exclusively on developing large-scale properties. Our current projects, Shanghai Cannes, Shanghai Concord City, Chongqing Manhattan City, Chongqing Concord City and Chongqing Global Twin Towers, have total GFAs of approximately 1,984,313 sq.m., 412,918 sq.m., 2,604,661 sq.m., 408,927 sq.m. and 1,947,900 sq.m., respectively. In the future, we plan to focus on projects with a GFA of more than one million sq.m. As part of our focus on large-scale projects, we generally seek to acquire the entire plots of land necessary to build our projects at the outset, which we believe helps us to minimize land premiums and allows us to use such land in obtaining financing for the project. As a result, we believe the large scale of these projects has provided us with greater economies of scale and helped us to achieve a higher profit margin than those of our competitors that engage in a higher volume of lower margin developments. The size of our projects also facilitates our effort to incorporate design features based on varying themes and concepts aimed at enhancing the ambience of our projects. In addition, the scale of our developments enables us to offer a more comprehensive range of support services within our residential development projects, such as recreational facilities, supermarkets, restaurants, clinics and kindergartens. We believe the availability of such on-site services enhances the appeal of our developments to our potential purchasers and tenants.

We have benefited from incorporating into our development projects various design features, some of which we believe to be innovative in China, based on varying themes and concepts.

We incorporate into our developments various design features, some of which are designed by internationally recognized designers and we believe to be innovative in China, based on varying themes and concepts aimed at enhancing the ambience of our projects. For example, we have incorporated “hill-top,” “islands” and “lakeside” themes in Shanghai Cannes. In Chongqing Manhattan City, we have incorporated “hill-top,” “lakeside,” “mid-level,” “soho” and “villa residence” themes in Phase I, and “nature,” “living of soul” and “honor” themes in Phase II, and we plan to incorporate a “fusion between East and West” theme in Phase III, and a “retail street concept” in Phase IV, comprising five retail streets with various international themes and styles, namely New York Fifth Avenue, Paris Champs-Elysees, London Oxford Street, Tokyo Shinjuku Main Street, and Seoul Myeong-dong. We plan to incorporate the “theme street concept” in Chongqing Concord City and Shanghai Concord City. In Chongqing Global Twin Towers, we plan to incorporate the “oasis” and “beach” themes, and feature terraced villas embracing the natural landscape of the nearby river and hills. We believe these design features have enhanced or may potentially enhance the appeal of our residential and commercial properties to our targeted customers, particularly middle- and upper-middle-class purchasers and consumers in China. We believe this approach to our developments enables us to better distinguish our properties from those of our competitors, strengthen our brand and increase sales volume, pricing and rent, all of which we believe have helped increase our total revenue.

Blue-chip tenant base and strong relationships with international business partners.

We seek to maintain a blue-chip tenant base and strong relationships with international business partners. Our retail tenants include some of the largest and most famous international names in the fashion and food and beverage industries. For example, the retail tenants of Shanghai Concord City Phase I included Tesco, one of the largest retailers globally, and Starbucks, the largest global chain of coffeehouses. We believe these relationships allow us to maintain a higher occupancy rate for our rental properties by enhancing the profile and attractiveness of these properties, while also improving the marketability and prospects of our residential properties and hotels which are developed in conjunction with such retail properties. Currently, we are in the process of terminating the leases for the retail areas of Shanghai Concord City Phase I, which we plan to renovate in anticipation of the launch of the Shanghai Concord City Phase II retail units.

We have also partnered with top international architects and contractors, as well as internationally recognized designers and large state-owned construction companies to further enhance the value and appeal of our projects to our customers. For example, we have partnered with Foster + Partners, led by British designer Norman Foster, and Jerde Partnership to design Chongqing Global Twin Towers. In addition, we have partnered with Arquitectonica to design Chongqing Concord City and Shanghai Concord City.

In addition, we are currently in negotiations to engage an upscale boutique brand under a renowned international hotel group as the hotel operator, as well as internationally recognized retailers, restaurants and banks for the rental agreements for Shanghai Concord City Phase II North Wing. We believe that stable, long-term collaborative relationships with these partners enhance not only the attractiveness of our property developments and investments, but also our long-term prospects as we continue to develop and expand our business and brand in China.

Substantially all of the land in our existing portfolio is land that has already been cleared and for which there are no major relocation challenges.

We believe we benefit from a portfolio of land that has substantially all been cleared. Under PRC laws and regulations, a property developer that wishes to demolish existing buildings to make way for new development must compensate the residents of those existing buildings for their resettlement costs. The amount of such relocation costs is determined in accordance with applicable PRC laws. If the housing expropriation department and the affected residents fail to reach an agreement on the relocation costs, the development of the site will be delayed.

The total site areas of all our current projects are free of any major issues or concerns relating to the relocation of any current residents or tenants, including the payment of resettlement costs. Accordingly, the absence of major relocation issues on our existing projects reduces our development risks from both a cost and financing perspective.

We have a strong project management and design team and experienced senior management.

Our project management and design team, consisting of 49 employees, of whom 30 are professionally qualified architects, engineers or surveyors, closely monitors each stage of the development process for each project, including overseeing the architectural and interior design of our projects, liaising with external designers and architects, supervising and managing construction costs, schedules and quality. In addition, our senior management has significant experience in property development in China, with some having been involved in property development projects in Shanghai and/or Chongqing since the 1990s. Our managing director, Mr. Wong, Sai Chung, has over 30 years of experience in the property development market in China and, in particular, has over 18 years of experience in the Shanghai property market. In addition, Mr. Xu, Li Chang, one of our executive directors, is experienced in the PRC construction industry and has been with the Group since 1998.

We consider the strength of our project management and design team to be fundamental to the success of our development projects in a highly competitive market such as China where careful site selection, detailed planning, stringent cost control and quality control are essential. We believe we have benefited, and will continue to benefit, from their extensive experience and knowledge of the China property market.

Our Strategies

We intend to continue to focus on developing and creating high-quality, large-scale residential and commercial projects in strategic locations in and around Shanghai, Chongqing and possibly other major cities in China, such as Beijing. We intend to achieve this overall objective by pursuing the following strategies:

Seeking to achieve and maintain a diverse mix of sale and investment properties.

We earn substantially all of our revenue from sales of properties. With the development of Shanghai Concord City, Chongqing Manhattan City, Chongqing Concord City and Chongqing Global Twin Towers, we have sought greater diversification into retail, office, hotel and other commercial properties. We believe that by diversifying into the retail, office, hotel and other commercial markets, while continuing to develop our properties in the residential sector, we reduce our risk of over-reliance on any particular sector of the market.

We intend to maintain a diversification of revenue between, on the one hand, development activities that generate profits from sales of completed properties and, on the other hand, investment income from properties we develop with a view to leasing for recurring rental income. Through the ownership of investment properties, we have a long-term exposure to the Chinese property market, which in turn offers us the potential for capital gains.

To maintain a stable source of income, we intend to retain a majority of our retail, office, hotel and other commercial properties for rental. We expect our sale properties, together with our investment properties, will form complementary components of the same large-scale developments. We believe the benefits of this strategy include:

- rental income helps provide greater diversification and stability of future income during unpredictable market cycles;
- the potential for long-term capital gains through our investment portfolio; and
- a diversified asset base to support funding for our future activities.

Partnering with professional property management companies and securing long-term anchor tenants.

We are in discussions to engage experienced professional property management companies to manage our retail and hotel property developments for Shanghai Concord City. We believe that the management skills as well as sales and marketing expertise of these professional companies will help to enhance the competitiveness of our retail and commercial properties.

We intend to work closely with the property management companies that we engage in an effort to secure long-term anchor tenants, including department stores, hypermarkets and chain retailers, in the early phases of development of our projects, in part to mitigate development risk. We believe securing long-term anchor tenants during the early phases of our property developments may help us to raise the general attractiveness, profile, reputation and pedestrian traffic of our projects, which in turn will help to enhance their value and desirability.

Continuing to utilize pre-sale whenever possible when offering our properties for sale.

We believe that pre-sale of our properties for sale provides a number of strategic benefits to us, such as:

- reducing upfront cash requirements to fund developments;
- improving working capital efficiency;
- increasing future earnings transparency;
- providing additional timing flexibility, which in turn increases our ability to deal with property market cycles; and
- decreasing the time our developments are exposed to sales risk.

Selectively identifying land for future development, and acquiring land use rights primarily through private transactions.

As part of our continuing strategy to focus on developments of a selected number of large-scale projects in strategic locations, we intend to continue to be selective in identifying land suitable for our future development. In acquiring land use rights, we believe we have generally been able to secure prices that are more favorable through private transactions than the government public tender process. Accordingly, where possible, we intend to acquire land use rights through private transactions, such as purchasing from non-government third parties or forming joint ventures with large property developers. We may also seek to acquire land use rights through the mandatory government public tender process if market conditions are favorable. In addition, we may exercise the Beijing Concord Option to acquire a 50% interest in the project company that owns the rights to a proposed property development project on Xidan Street in Beijing. The project is on a site area of over 80,000 sq.m. with a proposed GFA of 347,595 sq.m., including over 130,000 sq.m. of retail space. The Beijing Concord Option is exercisable by us at any time before the expiry of 12 months after valid land use rights certificates to develop the whole property subject to the land grant contract have been granted.

Property Descriptions

We currently have five projects, Shanghai Cannes, Shanghai Concord City, Chongqing Manhattan City, Chongqing Concord City and Chongqing Global Twin Towers. We classify our projects under three categories of development. The following is a description of these categories:

- Completed property developments. A property development is completed when we have received the Construction Work Completion Inspection Certificates for that project. These certificates are typically issued only when we have provided the relevant government authorities copies of approvals from the bureaus of planning, fire services and environmental protection, as well as signed guarantees of construction quality from contractors and other documents required by the relevant laws and regulations.
- Properties under development. We consider a property to be under development when we have commenced substantial preparatory work, such as geological survey and project and design planning. We may start our preparatory work prior to or after receiving the relevant construction permits.
- Properties held for future development. These consist of projects we plan to develop with respect to which a more detailed development plan is not yet available.

All of our projects are developed in multiple phases on a rolling basis, and as a result, one project may have phases in different categories. Furthermore, due to the large scale of our projects, each phase of our projects is developed in multiple sub-phases, and accordingly, one phase of a project may have sub-phases in different categories.

The table below sets forth certain information relating to the particulars of our major properties as of June 30, 2013:

Project	Total GFA ⁽¹⁾ (sq.m.)	Actual or estimated pre-sale/lease commencement time ⁽²⁾	Actual or estimated completion time ⁽³⁾
Completed property developments			
<i>Shanghai Cannes</i>			
Phase I — Residential	236,987	Q3 1999	Q1 2001 to Q3 2003
Phase II — Residential	386,328	Q2 2003	Q4 2004 to Q1 2006
Phase III — Residential	456,671	Q3 2004	Q2 2006 to Q4 2006
Phase IVA — Residential	233,032	Q2 2006	Q1 2008
Phase IVB — Residential.	182,467	Q3 2007	Q4 2008
Phase I-IV — Retail	14,234	Q3 2003	Q4 2002
Phase I-IV — Parking spaces . . .	164,594	Q1 2000	Q4 2008
<i>Shanghai Concord City</i>			
Phase I — Residential —			
Tower I	15,576	Q3 1994	Q4 1997
Phase I — Residential —			
Tower II.	15,576	Q1 2001	Q4 2000
Phase I — Retail	24,733	Q1 2001	Q4 2000
Phase I — Parking spaces	8,447	Q1 2001	Q4 2000
<i>Chongqing Manhattan City</i>			
Phase I — Residential	375,396	Q4 2009 to Q1 2013	Q4-2011 to Q3 2012 ⁽⁴⁾
Phase I — Retail	31,720	Q4 2013	Q4 2012
Properties under development			
<i>Shanghai Cannes</i>			
Phase V — Residential	200,000	Q2 2014	Q2 2015 to Q2 2016
Phase V — Retail	90,000	Q2 2014	Q2 2015
Phase V — Parking spaces.	20,000	Q2 2014	Q2 2015 to Q2 2016
<i>Shanghai Concord City</i>			
Phase II North Wing — Retail. .	38,628	Q4 2013	Q4 2013
Phase II North Wing — Hotel . .	5,941	Q4 2013	Q4 2013
Phase II North Wing — Parking spaces.	18,787	Q4 2013	Q4 2013
<i>Chongqing Manhattan City</i>			
Phase I — Parking spaces	91,009	Q4 2013	Q4 2013
Phase II — Residential	437,959	Q3 2010	Q4 2012 to Q3 2014
Phase II — Retail.	7,467	Q4 2013	Q4 2013
Phase II — Parking spaces.	90,115	Q4 2013	Q4 2013
Phase III — Residential	394,022	Q4 2013	Q4 2014
Phase III — Retail	10,000	Q4 2014	Q4 2014
Phase III — Parking spaces	73,973	Q4 2014	Q4 2014 to Q2 2015

<u>Project</u>	<u>Total GFA⁽¹⁾</u> (sq.m.)	<u>Actual or estimated pre-sale/lease commencement time⁽²⁾</u>	<u>Actual or estimated completion time⁽³⁾</u>
<i>Chongqing Concord City</i>			
Residential	137,264	Q3 2014 to Q3 2015	Q3 2015 to Q3 2016
Retail	103,236	Q4 2015	Q4 2015
Parking spaces	59,085	Q4 2016	Q4 2016 to Q2 2017
Office	79,500	Q4 2016	Q4 2016 to Q2 2017
Hotel	29,842	Q1 2018	Q4 2016 to Q2 2017
<i>Chongqing Global Twin Towers</i>			
Residential	1,053,000	Q3 2014 to Q3 2018	Q4 2015 to Q4 2018
Retail	200,000	Q2 2017	Q2 2017
Parking spaces	397,900	Q2 2017	Q2 2017
Office	237,000	Q2 2017	Q2 2017
Hotel	60,000	Q2 2018	Q2 2018
Properties held for future development			
<i>Shanghai Concord City</i>			
Phase II South Wing — SOHO/ Office	72,972	Q2 2014	Q2 2015 to Q3 2017
Phase II South Wing — Retail . .	112,994	Q1 2016	Q4 2015
Phase II South Wing — Office . .	54,505	Q4 2015	Q4 2015
Phase II South Wing — Parking spaces	37,419	Q1 2016	Q1 2016
Phase II South Wing — Huashan Building ⁽⁵⁾	7,340	Q4 2015	Q4 2015
<i>Chongqing Manhattan City</i>			
Phase IV — Residential	297,000	Q3 2016	Q3 2017
Phase IV — Retail	706,000	Q3 2017	Q3 2017
Phase V — Residential	90,000	Q2 2014	Q4 2014 to Q4 2016

(1) The amounts for “total GFA” in this table and elsewhere in this offering circular, including those under this “Property Descriptions” section are derived on the following basis:

- Where a property has been sold and delivered and the relevant title certificate has been transferred, the amount for GFA is based on the relevant title certificate;
- Where a title certificate has not been transferred but the relevant property has been pre-sold, the amount for GFA is based on the pre-sale contract relating to such property;
- Where a property has not been sold or pre-sold but the relevant pre-sale permit has been received, the amount for GFA is based on such pre-sale permit;
- Where a pre-sale permit has not been received but the relevant land grant contracts have been signed, the amount for GFA is based on such land grant contracts; and
- Where land grant contracts have not been signed, the amount for GFA represents our internal estimates based on our current development plans.

- (2) *Pre-sale/lease commencement dates refer to dates on which we received or expect to begin pre-sale or pre-lease activities after receiving the relevant pre-sale permits.*
- (3) *These dates and the completion dates included elsewhere in this offering circular, including those under this “Property Descriptions” section, are derived on the following basis:*
- *Where the certified report in respect of a property development has been obtained, the completion date of that property development is taken to be the date of the relevant certified report;*
 - *Where the certified report in respect of a property development has not been obtained but pre-sale has commenced, the completion date of that property development will be deemed to be the date of delivery of vacant possession specified in the relevant pre-sale contract; and*
 - *Where the certified report in respect of a property development has not been obtained and pre-sale has not commenced, the completion date represents our internal estimates based on our current development plans.*
- (4) *Subject to obtaining the relevant construction work completion inspection certificates.*
- (5) *Huashan Building is an existing historical building that we plan to renovate into a hip hotel with retail shops as part of Shanghai Concord City Phase II South Wing.*

In general, land use rights in the PRC are granted for a term of 70 years for residential properties, 40 years for commercial properties and 50 years for comprehensive use properties. The relevant authorities will not issue the land use rights certificate on a parcel of land until the land premium is paid in full and, as applicable, the relocation process is completed. As a result, in order to adjust to the pace of development, the land for a property development may be divided into one or more parcels for which multiple land use rights certificates are granted at different stages of development. This partly contributes to our decision to develop our projects in phases and sub-phases.

Cannes features a number of ancillary facilities, including a primary school, two nurseries, two community centers, a fitness center, a healthcare center, a bank, a post office and a vegetable market.

Shanghai Concord City

Shanghai Concord City is a mixed development of retail space, residential units, office space, and two hotels on the west end of Nanjing Road, a major road in Shanghai that starts at the Bund in the east and ends at the junction of Zhenning Road and Yan'an West Road in the west, which is also one of the most well-known prime shopping streets in Shanghai. Shanghai Concord City is expected to cover a total site area of approximately 50,428 sq.m. and when completed, is planned to have a total project GFA of approximately 412,918 sq.m. (including parking lots and units sold and delivered). We are developing Shanghai Concord City in two phases. Phase I of Shanghai Concord City has been completed and Phase II is currently under development, which includes Huashan Building, an existing historical building that we plan to renovate into a hip hotel.

Phase I of Shanghai Concord City consists of:

- retail space, comprising a hypermarket and food and beverage outlets, originally completed in 2000; and
- serviced apartments in two buildings, with Tower I originally completed in 1997 and Tower II originally completed in 2000.

Phase II of Shanghai Concord City is planned to include:

- a retail street, comprising four themed areas;
- Grade-A office space;
- SOHO and office space; and
- a hip hotel and attached retail space.

Huashan Building is a part of Phase II South Wing, and is planned to be renovated into a hip hotel with attached retail space.

Phase I of this project has been completed, and as of June 30, 2013, approximately 12,382 sq.m. of residential properties had been sold and delivered. The remaining Phase I residential properties are expected to launch for sale in the fourth quarter of 2013, which we plan to renovate to match with the design and layout of the Phase II retail units and expect to be bolstered by the commencement of leasing of the Phase II retail units in the fourth quarter of 2013. The purchasers of Phase I residential properties are expected to receive the renovated properties by June 2014 for which we will bear the renovation costs. In addition, we are in the process of terminating the leases for the retail areas of Phase I, which we plan to renovate in anticipation of the launch of the Phase II retail units. Phase II North Wing is currently under development, with completion expected in the fourth quarter of 2013, and Phase II South Wing is currently under planning, with completion expected between the second quarter of 2015 and the third quarter of 2017.

The following table sets forth certain information relating to Shanghai Concord City as of June 30, 2013:

	<u>Completed property developments</u>			<u>Properties under development</u>	
	GFA			GFA planned for lease	GFA planned for sale
	GFA sold and delivered	contracted to be sold but not yet delivered	GFA available for sale/lease (sq.m.)		
Phase I					
Retail	—	—	24,733	—	—
Residential — Tower I	7,876	—	7,700	—	—
Residential — Tower II. . . .	4,506	—	11,070	—	—
Phase II					
North Wing — Retail	—	—	—	38,628	—
North Wing — Hip hotel. . .	—	—	—	5,941	—
South Wing — Grade-A office space.	—	—	—	54,505	—
South Wing — SOHO/ Office.	—	—	—	—	72,972
South Wing — Retail	—	—	—	112,994	—
South Wing — Huashan Building — Hotel.	—	—	—	7,340	—
Total.	12,382	—	43,503	219,408	72,972

Chongqing Manhattan City

We are developing Chongqing Manhattan City, which is planned to be a large-scale luxury residential and commercial project with five phases. Chongqing Manhattan City is located at Lijiu Road, Chongqing, and is at the interchange of major light rail lines. Chongqing Manhattan City is expected to cover a total site area of 556,711 sq.m. and when completed, is planned to have a total project GFA of approximately 2,604,661 sq.m. (including parking lots and units sold).

Phase I, comprising Manhattan Luxury Residence and Beverly Hills, includes:

- retail space, comprising convenient grocery stores;
- a king tower with two blocks, equipped with individual prestigious swimming pools;
- a queen tower, surrounded by relaxing gardens, ponds and hills; and
- 30 high-rise luxury apartment buildings.

Phase II, comprising the Villa Zone, is planned to include:

- 66 luxury villas and 18 high-rise residential buildings, separated by lush gardens and ponds; and
- retail space, comprising supermarkets and boutique shops.

Phase III, comprising the European Type House Zone, is planned to include:

- retail space, comprising restaurants and chain stores; and
- 22 luxury European type houses separately with intertwining gardens and ponds.

Phase IV, comprising the World Number One Shopping Mall, is planned to include:

- retail space, comprising five themed streets with innovative activities and artistic performances to be organized throughout the year, and five themed areas, namely an international automotive exhibition center, an indoor ski center, an indoor beach water park, an aquarium indoor diving center and a world-class shopping complex.

Phase V is planned to include:

- a residential development located on a pedestrian shopping street.

We have completed the construction of Phase I and the high-rise portion of Phase II. The construction of the retail and low-rise portions of Phase II is expected to be completed in 2014. The remaining Phase II units that have been contracted for sale will be delivered in the second half of 2013. We are currently in the process of applying for approval from the Chongqing government for the development of the World Number One Shopping Mall under Phase IV and expect to receive the approval by the end of October 2013. We will launch the sale of the remaining Phase I and Phase II units and the pre-sale of the Phase III units upon the receipt of such approval as we expect the Phase I, II and III properties to be bolstered by the development of the World Number One Shopping Mall. In the event that such approval is not granted by the end of October 2013, we expect to launch the sale of the remaining Phase I and Phase II units and the pre-sale of the Phase III units by the end of 2013.

The following table sets forth certain information relating to Chongqing Manhattan City as of June 30, 2013:

	<u>Completed property developments</u>			<u>Properties under development</u>	
	GFA			<u>GFA planned for lease</u>	<u>GFA planned for sale</u>
	<u>GFA sold and delivered</u>	<u>contracted to be sold but not yet delivered</u>	<u>GFA available for sale/lease (sq.m.)</u>		
Phase I — Manhattan Luxury Residence and Beverly Hills					
Retail	—	—	31,720	—	—
Residential	296,937	—	78,459 ⁽¹⁾	—	—
Phase II — The Villa Zone					
Residential	182,622	83,787	36,792 ⁽¹⁾	—	134,758
Retail	—	—	—	7,467	—
Phase III — The European Type House Zone					
Residential	—	—	—	—	394,022
Retail	—	—	—	10,000	—
Phase IV — World Number One Shopping Mall					
Retail	—	—	—	706,000	—
Residential	—	—	—	—	297,000
Phase V					
Residential	—	—	—	—	90,000
Total	<u>479,559</u>	<u>83,787</u>	<u>146,971</u>	<u>723,467</u>	<u>915,780</u>

(1) Subject to obtaining the relevant construction work completion inspection certificates.

Chongqing Concord City

We are developing Chongqing Concord City, which is expected to be a high-end commercial and residential complex at the heart of Chongqing’s central business district, with proximity to Chongqing People’s Liberation Monument and the light rail station of Jiaochangkou. Chongqing Concord City has a total site area of approximately 18,369 sq.m. and, when completed, is planned to have a total project GFA of approximately 408,927 sq.m. (including parking lots). Chongqing Concord City is planned to offer a unique blend of indoor and street-level shopping experiences, housing shops of leading international brands. Its hotel will cater to both local and international corporate clients. The residential complex is expected to comprise fully furnished apartments in a private setting with spacious living spaces. Chongqing Concord City is currently under planning and the fundamental ground work has been completed. We expect to complete Chongqing Concord City in stages between 2015 and 2017.

The following table sets forth certain information relating to Chongqing Concord City as of June 30, 2013:

	Properties under development	
	GFA planned for lease	GFA planned for sale
	(sq.m.)	
Retail	103,236	—
Residential.	—	137,264
Office	79,500	—
Hotel.	29,842	—
Total.	212,578	137,264

Chongqing Global Twin Towers

We are developing Chongqing Global Twin Towers, which we expect to include one of the tallest buildings in the world at 528 meters tall. Chongqing Global Twin Towers is expected to be an ultra-high rise office, retail and residential building along Nanbin Road. Chongqing Global Twin Towers is expected to cover a total site area of approximately 139,344 sq.m. (including public facilities) and, when completed, is planned to have a total project GFA of approximately 1,947,900 sq.m. (including parking lots). Chongqing Global Twin Towers is planned to include terraced villas embracing the natural landscape of the nearby river and hills, environmentally friendly high-end office buildings, a resort hotel, a world-class shopping mall, and other supporting facilities such as a beach and gardens. Chongqing Global Twin Towers is currently under planning with completion planned in stages between 2015 and 2018. The land use rights certificates covering approximately 109,574 sq.m. site area were granted to us on September 13, 2012. The remaining site area will be used for public facilities for which the land use rights certificate is not required.

The following table sets forth certain information relating to sales, leases and GFA of Chongqing Global Twin Towers as of June 30, 2013:

	Properties under development	
	GFA planned for lease	GFA planned for sale
	(sq.m.)	
Retail	200,000	—
Residential.	—	1,053,000
Office	237,000	—
Hotel.	60,000	—
Total.	497,000	1,053,000

Beijing Concord Option and General Option

On February 8, 2007, we entered into an option agreement with Mr. Wong, pursuant to which we were granted the Beijing Concord Option, under which we may acquire, at our election, a 50% interest in the project company that owns the rights to a proposed property development project on Xidan Street in Beijing. The project is on a site area of over 80,000 sq.m. with a proposed GFA of 347,595 sq.m., including over 130,000 sq.m. of retail space. The Beijing Concord Option is exercisable by us at any time before the expiry of 12 months after valid land use rights certificates to develop the whole property subject to the land grant contract have been granted. We may exercise this option by acquiring either Mr. Wong’s entire interest in Nexthill Investments Limited (歷山投資有限公司), a company incorporated in the British Virgin Islands with limited liability (“Nexthill”),

which is indirectly wholly owned by Mr. Wong, or Nexthill's 50% equity interest in Beijing Cheng Qian Property Development Company Limited (北京承乾房地產開發有限責任公司), a sino-foreign equity joint venture established in China, of which the remaining 50% equity interest is owned as to 48%, by Beijing Hui Hong Property Development Company Limited (北京薈宏房地產開發有限責任公司) and as to 2% by Beijing Zhaotai Real Estate Development Co., Ltd. (北京兆泰房地產開發有限責任公司), both of which are independent third parties.

On February 8, 2007, we entered into an additional option agreement with Mr. Wong, pursuant to which we were granted the General Option, under which we may acquire certain of Mr. Wong's interests in properties in the PRC, other than those subject to the Beijing Concord Option and certain other excluded property interests.

Property Development

The property development industry in China is extensively regulated. See "Risk Factors — Risks Relating to the Property Market in China."

The following table sets forth the key stages of our property development process:

<u>Land acquisition</u>	<u>Project planning and preliminary work</u>	<u>Design</u>	<u>Construction</u>	<u>Pre-sales and sales/rentals</u>	<u>After sales services</u>	<u>Property management services</u>
<ul style="list-style-type: none"> • Site selection • Market Analysis • Feasibility study • Negotiation/confirmation • Approval by senior management 	<ul style="list-style-type: none"> Market analysis Product positioning Arrange financing Plan design 	<ul style="list-style-type: none"> Architectural and construction design Landscape design Interior design 	<ul style="list-style-type: none"> Tender procurement of supplies Construction supervision Quality control Completion inspection 	<ul style="list-style-type: none"> Pre-sales and sales Preparation for pre-sales Sales promotion Follow up from signing of sales contract Delivery of property Rental Marketing Signing of leases 	<ul style="list-style-type: none"> Mortgage and registrations assistance Handling of complaints Statistical analysis Management of clients' database 	<ul style="list-style-type: none"> Maximize rental income Increase occupancy levels Increase rental rates for terms Maintain high quality tenant base

Land Acquisition

Under the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing for Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》) issued by the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) ("MLR") on May 9, 2002 and amended on September 28, 2007, land use rights for commercial use, tourism, entertainment and commodity residential properties in China can only be granted by the government through public tender, auction or listing for sale.

Historically, most of the land use rights owned by us were obtained directly from the PRC government or from independent third parties. In acquiring land use rights, we have generally obtained more favorable prices through private transactions than government public tender process. Accordingly, where possible, we intend to acquire land use rights through private transactions, including through purchasing from non-government third parties or forming joint ventures with large property developers. We may also seek to acquire land use rights through the mandatory government public tender process if market conditions are favorable.

On June 5, 2003, the PBOC published the Notice on Further Strengthening the Administration of Real Estate Loans (《中國人民銀行關於進一步加強房地產信貸業務管理的通知》). This notice prohibits commercial banks from advancing loans to fund the payments of land premiums. As a result, real estate developers may only use their own funds to pay for land premiums.

Site Selection

We consider the site selection process fundamental to the success of a property development project. Before we commence a property development project, we would typically conduct feasibility studies and consider various criteria, including:

- cost, investment and financial return ratios;
- consumer demand for properties in the locality;
- government development plans for the relevant project and the neighboring area;
- accessibility of the project and available infrastructure support;
- competition from other property developments in the locality; and
- nearby facilities and amenities close to the site (such as parks, greenery, rivers and commercial facilities).

Project Planning and Preliminary Work

Project Positioning

Our sales and marketing department and our design management department are responsible for positioning our projects, based on their analysis of the purchasing power and preferences of our target customers.

Financing

We undertake our project developments through project companies. We finance the project development costs principally through loans from related companies, bank loans and proceeds from pre-sales. Substantially all of the bank loans we have obtained to fund our property development projects are secured by our assets.

Where market and regulatory conditions allow, we conduct pre-sale so as to reduce the level of external borrowings required. Under PRC law, we must comply with certain conditions before we can conduct pre-sale. See “— Pre-sale and Sales/Rentals.”

We seek to finance the costs of our future project developments in part through non-recourse bank financings, which would not require a guarantee to be provided by the Company. Other sources of funding include new equity or debt issuances. See “Risk Factors — Risks Relating to Our Business — We may not be able to obtain adequate financing to fund our land acquisitions and property projects.”

Design and Construction

Our project management and design team, consisting of 49 employees, of whom 30 are professionally qualified architects, engineers or surveyors, closely monitors each stage of the development process for each project, including overseeing the architectural and interior design of our projects, liaising with external designers and architects, supervising and managing construction costs, schedules and quality.

We seek to design the master plan of each project with a large amount of detail in an effort to ensure that our theme-based design features are incorporated consistently throughout the project. Creating detailed master plans also reflects our belief that careful planning is essential in controlling cost, quality and timing of our projects. Accordingly, in determining the architectural design of our projects, we work closely with our professional advisors, including architects, planning experts and market consultants, and consider:

- the proposed type of residential or commercial development and the theme to be associated with the development;
- the project area; and
- the surrounding environment or neighborhood of the project.

For each of our projects, we typically retain two architectural firms, normally consisting of an international firm and a PRC firm. For example, we have partnered with Foster + Partners, led by British designer Norman Foster, and Jerde Partnership to design Chongqing Global Twin Towers. In addition, we have partnered with Arquitectonica to design Chongqing Concord City and Shanghai Concord City. Our design management team provides an initial overall design to our international design firms, and works closely with our international and PRC design firms in an effort to ensure that our designs comply with PRC laws and regulations, as well as meeting our design objectives.

In selecting architectural design firms, we consider, among other things, their reputation for reliability and quality, their track record, the price quoted and the design proposed. Design firms are normally selected by invitation. Our design management team monitors the progress and quality of the design firms to ensure they meet our requirements.

We outsource substantially all of our construction work to construction companies, including large state-owned construction companies. Our construction contracts typically provide for a fixed or a guaranteed maximum price payable by us, though we may need to pay additional amounts to the contractors in excess of the fixed cost in certain circumstances, such as changes in designs during construction. The contractors are typically responsible for procuring the necessary raw materials, as well as providing engineering and construction services. We generally hire more than one contractor for each of our projects, with each contractor responsible for a designated portion of the project on a “turnkey” basis. These contractors may employ sub-contractors to assist in providing the services, but the contractors remain responsible to us for any act or omission of these sub-contractors. The construction contractors are selected by our project construction department which considers, among other things, the reputation of the contractors and the price quoted by the contractors. The contractors are normally selected through a tender process for each property development project.

The construction contracts contain warranties from the contractors in respect of quality and timely completion of the construction. In the event of delay or poor quality of work, the contractor may be required to pay pre-agreed damages under the relevant construction contract. We require our

contractors to comply with PRC laws and regulations on quality of construction projects, as well as our own standards and specifications. The contractors are also subject to our quality control procedures, including examination of materials and supplies, on-site inspection and production of progress reports. Despite the “turnkey” nature of the construction contracts, we devote considerable resources to oversee the construction work for quality, timing and cost control reasons. In an effort to ensure the quality of the services rendered by the contractors, we pay our contractors in installments and we generally retain approximately 3–5% of the total construction costs for a previously agreed period of time to secure any claim we may have due to construction defects.

Pre-sale and Sales/Rentals

Pre-sale typically commences several months after the beginning of construction depending on market conditions. Our general approach is to pre-sell properties when market and regulatory conditions allow.

Under the Law of the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》) and the Administrative Measures Governing the Pre-sale of Urban Real Estate (《城市商品房預售管理辦法》) as amended in 2001 and 2004 (which are generally applicable in the PRC, including Shanghai and Chongqing), we must comply with the following conditions before we can pre-sell a particular property:

- (i) the land premium must have been fully paid and the relevant land use rights certificates must have been obtained;
- (ii) the construction work planning permit and the construction work commencement permit must have been obtained;
- (iii) the funds contributed to the development of the project where commodity property units are pre-sold must not be less than 25% of the total amount invested in the project and the progress and the expected completion date of the construction work must have been confirmed; and
- (iv) registrations for pre-sale shall be made at the real estate administration bureau at or above the county level, and pre-sale permits shall be obtained.

In Shanghai, according to the Measures on the Administration of Real Estate Transfer of Shanghai (《上海市房地產轉讓辦法》) (as amended) and other relevant rules, such pre-sale permits will only be issued when, among other things, (i) to (ii) above are complied with and, in addition:

- The completion date of the commodity housing has been identified and the construction plans of municipal, communal and public supporting facilities have been implemented;
- The completed construction has met the specified standards and in particular, for commodity housing projects that have obtained construction work commencement permits on or after July 1, 2010, the real estate developer shall submit the quality acceptance certificate for the main structure.

According to the Administration Regulations on Real Estate Transactions in Chongqing (《重慶市城鎮房地產交易管理條例》), effective January 1, 2012, to obtain a pre-sale permit, a property developer shall have:

- obtained the relevant business license and qualification certificates;
- signed the land use rights grant contract or obtained the approval for the use of land use rights, and have obtained the land use rights certificates;
- obtained the construction work planning permit and the construction work commencement permit;
- sealed the top of the main construction for buildings with eight floors or fewer or the completed at least 50% of the total planned GFA for buildings with nine floors or more;
- entered into capital supervision agreements;
- developed an interim management plan and filed a signed preliminary property management agreement;
- developed a pre-sale program containing details on location, GFA, completion and delivery dates, quality warranty and intended sale price;
- obtained the relevant certificates regarding compensation for housing expropriation;
- obtained the consent of pre-sale from any mortgagees with regard to the land, as applicable;
- where multiple parties jointly develop and apply for the pre-sale of a project together, they shall have jointly obtained the land use rights and signed a cooperative development contract; and
- other conditions stipulated by the relevant laws and regulations.

Pre-sale is based upon contracts entered into between the purchasers and us. The contracts typically provide for the GFA of the property sold, purchase price per square meter, method and manner of payment and date and manner of delivery of the completed property. There are also provisions for examination, acceptance and certification to be carried out by the relevant government authorities before delivery of the completed property. We normally have required from each purchaser a deposit at the time we and the purchaser execute a pre-sale contract. Pursuant to prior PRC regulations, purchasers were previously able to obtain mortgages for up to 80% of the purchase price of the property with a repayment period of up to 30 years. However, the People's Bank of China removed its subsidies on mortgage lending in March 2005 and raised the minimum upfront payment by purchasers of properties from 20% to 30% of the purchase price in certain regions considered to have an overheated property market. Furthermore, with effect from June 1, 2006, the minimum down payment is 30% of the total purchase price for the purchase of a residential unit with GFA exceeding 90 sq.m. on all existing units and those yet to be completed, and a down payment of 20% on residential units for self-use with GFA under 90 sq.m. Since January 2010, the minimum down payment for a second or further residential property through mortgage financing for a family that has already purchased a residential property through mortgage financing shall be no less than 40% of the purchase price, and this rate was further increased to 50% in April 2010 and 60% in January 2011. The PRC government has suspended mortgage financing for the third or

above residential-properties purchase since September 2010. In addition, the loan-to-value ratio of the mortgage loan is subject to change according to the economic policies of the central and local governments and banks in China. See “Risk Factors — Risks Relating to the Property Market in China — The terms on which mortgages are available, if at all, may affect our sales.”

We make arrangements with various PRC banks to provide mortgage loans to purchasers of our residential properties. Consistent with what we understand to be market practice, we currently provide guarantees to these banks in respect of mortgages offered to our customers by the banks until the completion of the registration of the mortgage with the relevant mortgage registration authorities. In most cases, our guarantees are discharged when we submit the individual property ownership certificates and certificates of other interests in the property to the mortgagee bank. In our experience, the guarantee periods typically last for up to six months after delivery. In such cases, the guarantee periods may last for up to 24 months from the time we enter into the guarantees, taking into account the approximate 18 months needed to complete the construction and the additional six months for the application for and issuance of the individual property ownership certificates.

If a purchaser defaults under the loan while our guarantee is in effect, and we repay all debt owed by the purchaser to the mortgagee bank under the loan, the mortgagee bank must assign its rights under the loan and the mortgage to us and, after the registration of the mortgage, we will have full recourse to the property. In line with what we believe is industry practice, we do not conduct independent credit checks on our customers but rely on the credit checks conducted by the mortgagee banks.

Sales and Marketing

Our sales force comprises 33 employees, who receive regular training on sales and marketing strategies. Our sales force works closely with our design management department on issues relating to advertising, sales literature and customer feedback on designs. We also engage third party agents to conduct pre-sales and pay commissions calculated by reference to a pre-agreed percentage of successful sales volume. Our sales force works closely with these agents to generate sales. Our sales staff also provides after-sales services to our customers.

We advertise in newspapers and magazines, outdoor advertising boards and participate in real estate exhibitions. We typically set up on-site reception centers to display information relating to the relevant property development.

Delivery of Property

We endeavor to deliver quality products to our customers on a timely basis. We closely monitor the progress of construction of our property developments through, among other steps, regular property inspections. Our pre-sale or sale contracts provide for the time frame for delivery and we are required to make penalty payments to the purchasers for any delay in delivery. Once a property development has passed the requisite government inspections and is ready for delivery, we will notify our customers and hand over keys and possession of the properties.

After-sales Services

We assist customers who purchase our residential properties in arranging for and providing information relating to financing, including information on potential mortgage banks and the mortgage terms they may offer. We also assist our customers in various title registration procedures relating to their properties, attend to the delivery of the properties to the relevant customers and deal with complaints by our customers.

Our sales and marketing department also provides services such as processing of sales and rental enquiries. We believe that such services are effective in enhancing our brand name and in encouraging customers to purchase, or recommend others to purchase, our residential properties.

Property Management Services

Our professional team of 221 employees provides interim property management services to all properties we have developed and sold for an initial period of up to two years from the date of completion, until the owners' committee of the relevant property is established and a new property manager is appointed. Our property management services include maintenance and security of the common areas, gardening and landscaping, cleaning, fire protection and rental agency services. We typically hire professional management companies to manage those properties we retain. The property manager is expected to proactively manage our investment properties to maximize rental income, improve occupancy levels, increase tenancy renewal rates and maintain a high quality tenant base.

Property Leasing

For the marketing of properties we hold for rental, our sales and marketing department works closely with external agents to identify prospective tenants and conduct research to enhance the tenant profile and trade mix, in each case on an on-going basis.

Our retail properties in Shanghai Concord City Phase I are generally leased for terms of 3 to 10 years. Most of the leases provide for a fixed rent, a turnover-based rent or a combination of both. Subject to market conditions, we plan to lease our retail properties in Shanghai Concord City Phase II for terms of 2 to 10 years for fixed rent, turnover-based rent or a combination of both. Currently, we are in the process of terminating the leases for the retail areas of Shanghai Concord City Phase I, which we plan to renovate in anticipation of the launch of the Shanghai Concord City Phase II retail units. We plan to lease the retail properties in Chongqing Manhattan City for terms of 3 to 10 years for fixed rent, a turnover-based rent or a combination of both.

Quality Control

We emphasize quality control in an effort to ensure that the quality of our products and services meets or exceeds market standards. Our construction department monitors the work of our contractors to ensure that the building quality standards are observed during the construction phase.

We provide our customers with warranties covering the structure and certain fittings and facilities of our property developments in accordance with the relevant regulations. For any issues relating to the construction work of our project, we require the contractors to remedy such issues before settling the remaining balance due under the construction agreements.

We seek to contract only with experienced design and construction companies. We have internal guidelines to ensure control over documentation, record-keeping, internal audit, remedial actions, preventive actions, management control, construction standards, staff quality, recruitment standards, staff training, construction supervision, supervisory inspection, monitoring and surveillance, information exchange and data analysis.

Competition

We compete with other property developers for the opportunity to participate in property and land development projects and the acquisition of land use rights. The principal factors of competition for such opportunities include the acquisition price and the financial resources of the developers. Because we focus on developing large-scale projects with strategic locations, our competitors include major PRC state-owned, collectively-owned and private developers and international developers, including many leading property developers from Hong Kong and Singapore.

In competing for customers of our residential properties, we believe the principal factors are price, location, quality and design. These factors are affected by market perceptions about the brand name and reputation of the developer, particularly with respect to residential properties. Accordingly, we believe that prompt after-sales service to deal with any construction issues is important in maintaining brand quality and reputation. With regard to retail properties, we compete for lessees primarily on the basis of location, rental price, quality and design, as well as potential customer traffic.

Environmental Matters

We are subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by the relevant local government authorities. These include regulations on air pollution, noise emissions, as well as water and waste discharge. Each of our property development projects, other than certain property developments that were approved before the applicable environmental laws were promulgated, is required under PRC law to undergo environmental assessments. In addition, an environmental impact study report is required under PRC law to be submitted to the relevant government authorities before approval is granted for commencement of the property development. We have not experienced any difficulties in obtaining such approvals in the past, although we cannot assure you that we will not experience any difficulties going forward. Upon completion of each property development, the relevant government authorities also inspect the site to ensure that applicable environmental standards have been complied with, and the resulting reports are then presented together with other specified documents to the local construction administration authorities for their records.

Legal Compliance and Proceedings

We are involved in litigation for an aggregate amount of approximately HK\$378.0 million in connection with disputes under certain construction contracts in the properties development operation during the normal course of business. No court decision or settlement has been reached with regard to these disputes. In addition, as a part of the litigation process, both we and the counterparties may apply for injunctions to guarantee the performance of future judgments arising from the pending litigation. In order to apply for an injunction, the moving party must deposit with the court an amount in cash, assets or other form of guarantee equal to the amount they wish to have frozen. In connection with such injunctions, we are restricted from disposing of a substantial portion of our assets in an amount of up to HK\$378.0 million, comprising cash and properties, primarily in

Chongqing Manhattan City Phase I, pending the resolution of the litigation. This amount may increase or decrease significantly as the litigation proceeds, and we might be restricted from disposing of significant amounts of additional assets in the future in connection with this litigation. These disputes have delayed our application for the construction work completion inspection certificates for the disputed properties and our deliveries of pre-sold units in these properties to our customers, and may further delay the title registration of the relevant properties. In addition, from time to time, we are involved in legal proceedings, claims or disputes in the ordinary course of business. Except as stated above, as of June 30, 2013, we are not aware of any material legal proceedings, claims or disputes currently existing or pending against us. However, we cannot assure you that material legal proceedings, claims or disputes will not arise in the future. See “Risk Factors — Risks Relating to our Business — We are currently facing legal claims from some of our contractors and may face other claims from our purchasers and suppliers, and we may be involved in government proceedings.”

REGULATIONS

The following is a summary of the PRC laws, regulations and administrative directives relating to the real estate sector to which we are subject.

Establishment of a Real Estate Development Enterprise and Foreign Investment in Real Estate Development Industry

According to the PRC Law on Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》) (the “Urban Real Estate Law”), promulgated by the Standing Committee of the National People’s Congress of the PRC (全國人民代表大會) (“NPC”) on July 5, 1994, effective on January 1, 1995 and amended on August 30, 2007 and August 27, 2009, a real estate developer is defined as an enterprise that engages in the development and operation of real estate for the purpose of making profits. Under the Regulations on Administration of Development of Urban Real Estate (《城市房地產開發經營管理條例》) (the “Development Regulations”), promulgated and implemented by the Stated Council on July 20, 1998 and amended on January 8, 2011, an enterprise engaging in development of real estate must satisfy the following requirements:

- Its registered capital must be RMB1.0 million or more; and
- It must have four or more full-time professional property/construction technicians and two or more full-time accounting officers, each of whom should hold relevant qualification certificates.

The Development Regulations also stipulate that the local government of a province, autonomous region or provincial-level municipality may, based on local circumstances, impose more stringent requirements on the registered capital and the number of professional personnel of a real estate developer.

Pursuant to the Development Regulations, to establish a real estate development enterprise, the developer shall apply for registration with local Administration for Industry and Commerce at or above county level and report its establishment to the real estate development authority in the location of its registration, within 30 days of the receipt of its business license. Where a foreign-invested enterprise is to be established to engage in the development and operation of real estate, it must also comply with the relevant requirements under the PRC laws and administrative regulations regarding foreign-invested enterprises and apply for approvals in accordance with the laws and regulations governing the foreign investments in China.

Under the Catalogue of Guidance on Industries for Foreign Investment (Revised in 2011) (《外商投資產業指導目錄》) (the “Foreign Investment Catalogue”), promulgated by MOFCOM and NDRC on December 24, 2011, effective on January 30, 2012, in terms of the category of real estate development:

- the development of a whole parcel of land (limited to sino-foreign joint equity and cooperative ventures) as well as the construction and operation of high-end hotels, premium office buildings, international conference and exhibition centers fall within the category of industries in which foreign investment is restricted;
- the secondary market transactions in real estate sector and real estate intermediaries or brokerage companies agents fall within the category of industries in which foreign investment is restricted;

- the construction and operation of villas fall within the category of industries in which foreign investment is prohibited; and
- other real estate developments fall within the category of industries in which foreign investment is permitted.

Subject to the approval by the relevant foreign investment regulatory authorities, a foreign investor intending to engage in the development and operation of real estate in China may establish a sino-foreign equity joint venture, a sino-foreign cooperative joint venture or a wholly foreign owned enterprise in accordance with the PRC laws and regulations governing foreign-invested enterprises.

Under the Notice on Adjusting the Capital Ratio for Fixed Assets Investment of Certain Industries (《關於調整部分行業固定資產投資項目資本金比例的通知》), issued by the State Council on April 26, 2004, the minimum capital ratio for real estate projects (excluding economically affordable housing projects) has been increased from 20% or above to 35% or above. However, pursuant to the Notice of the State Council on Adjusting the Percentage of Capital Fund for Investment Projects in Fixed Assets (《國務院關於調整固定資產投資項目資本金比例的通知》) issued by the State Council on May 25, 2009, the minimum capital ratio of ordinary commodity housing projects and social security housing projects has been reduced to 20%, while that for other real estate projects has been decreased to 30%.

On July 11, 2006, MOHURD, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued the Opinions 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》), (the “171 Opinions”). According to the 171 Opinions, the admittance and administration of foreign capital in the real estate market must comply with the following requirements:

- Foreign institutions or individuals who purchase properties not for their own use in China should follow the principle of “commercial presence” and apply for the establishment of foreign-invested enterprises pursuant to the regulations of foreign investment in properties. After obtaining the approvals 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 FIREE is US\$10 million or more, its registered capital shall be no less than 50% 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 the establishment of a FIREE, the MOFCOM authorities and the SAIC authorities will be responsible for the approval and registration of the FIREE and the issuance of a temporary Approval Certificate for a Foreign-invested Enterprise (which is effective for one year) and a temporary business license. Upon full payment of the land premium for the land-use rights, the FIREE should apply for the land use rights certificate. With such land use rights certificate, the real estate developer can obtain a formal Approval Certificate for a Foreign-Invested Enterprise from the MOFCOM authorities and a formal business license with the same approved business term as the formal Approval Certificate for Foreign-Invested Enterprise from the SAIC authorities.

- Transfers of projects or equity interests in FIREEs or acquisitions of domestic real estate development enterprises by foreign investors must strictly follow the relevant PRC laws, regulations and policies and obtain the relevant approvals. The investor will need to submit: (i) a written undertaking to fulfill the “State-owned land use rights Grant Contract”, “Construction Land Planning Permit” (建設用地規劃許可證) and “Construction Work Planning Permit” (建設工程規劃許可證); (ii) Land Use Rights Certificate; (iii) documents evidencing the filing for modification with MOHURD authorities; and (iv) documents evidencing the payment of tax from the relevant tax authorities.
- When acquiring domestic real estate development enterprises by way of share transfer or otherwise, or purchasing shares from Chinese parties in sino-foreign equity joint ventures, the foreign investors must make proper arrangements for the employees, properly deal with the bank loans and pay the consideration in one single payment with their capital. Foreign investors with records showing that they have not complied with relevant employment laws, with unsound financial track records, or who have not fully paid any previous acquisition consideration will not be allowed to undertake the aforementioned activities.

On August 14, 2006, the General Office of MOFCOM issued a Notice on Relevant Issues Concerning the Carrying out the Opinion on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market (《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》) (the “Notice on the Real Estate Market”). According to the Notice on the Real Estate Market, if the total investment of a FIREE exceeds US\$3 million, the registered capital must not be less than 50% of the total investment amount; 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 investment amount. When a foreign investor acquires a domestic real estate development enterprise through transfer of equity interest or other means, proper arrangements must be made for the original employees of the acquired companies, bank debts must be settled and the entire consideration for the transfer must be paid off within three months after the earlier of the issuance of the business license or the effective day of the equity transfer agreement.

On May 23, 2007, MOFCOM and SAFE jointly issued the Circular on Further Strengthening and Regulating the Approval and Supervision on Foreign Direct Investment in Real Estate Sector (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》) (“Circular 50”), which sets forth the following requirements for approving and supervising of foreign investment in real estate sector:

- Foreign investment in the real estate sector in the PRC relating to high-end properties should be strictly controlled;
- Before applying for the establishment of FIREEs, (i) both the land use rights certificates and property ownership certificates should have been obtained or (ii) contracts for obtaining land use rights or property ownership rights should be entered into;
- Existing foreign invested enterprises need to obtain approval before expanding their business operations into the real estate sector and existing FIREEs need to obtain new approval in case they wish to expand their existing real estate business operations;
- Acquisitions of domestic real estate entities and foreign investment in real estate sector in a way of a round-trip investment channel should be strictly regulated. Foreign investors may not avoid approval procedures through changes in actual controlling persons;

- Equity holders of FIREEs should not in any matters, conclude any provisions in order to guarantee a fixed investment return to any party;
- Filing with MOFCOM must be promptly executed according to applicable law once the establishment of FIREEs is approved by local government authorities;
- SAFE authorities and banks authorized to conduct foreign exchange business should not effectuate foreign exchange settlements or sales regarding capital account items to those entities failing to file with the MOFCOM or failing to pass the joint annual review inspections; and
- For those FIREEs, which are wrongfully approved by local authorities for their establishment, (i) the MOFCOM will carry out investigation order punishment and corrections, and (ii) SAFE authorities should not carry out foreign exchange registrations for these entities.

On July 10, 2007, SAFE issued the Notice on the Distribution of the List of the First Group of Foreign Invested Real Estate Projects Filed with MOFCOM (《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》) (“Notice 130”), together with a list of FIREEs that had effected their filings with MOFCOM. According to Notice 130, SAFE will no longer process foreign debt registrations or applications by FIREEs for permission to purchase foreign exchange to service their foreign debt if such FIREEs have not obtained their approval certificates from the government and finish the filing with MOFCOM before June 1, 2007. It can only use its capital contributions instead. SAFE further provided in its Notice 130 that it will not process any foreign exchange registration (or change of such registration) or exchange settlement under capital account of FIREE that obtained their foreign-invested enterprise approval certificates from local commerce departments on or after June 1, 2007 but has not completed its filing with MOFCOM. Although Notice 130 was abolished in May 2013, the principles it set are still followed. According to the Guidelines of Operation and Administration of Foreign Debt Registration (《外債登記管理操作指引》) dated May 13, 2013:

- (i) SAFE no longer processes foreign debt registrations by FIREEs if such FIREEs obtained their approval certificates from the relevant PRC governmental authorities and had effected their filings with MOFCOM after June 1, 2007 (including June 1, 2007).
- (ii) FIREEs established before June 1, 2007 shall still have the right to incur foreign debts within the statutory limit, which equals the outstanding balance between total investment and registered capital prior to the increase, or the outstanding balance between total investment and registered capital of such enterprises upon and after the increase, whichever is less.
- (iii) FIREEs cannot borrow foreign debt and process foreign debt registrations if its registered capital has not been fully paid, or the land use rights certificates has not been obtained or its capital ratio has not reached 35%.

In connection with the filing requirement, on June 18, 2008, the MOFCOM issued the Notice on Properly Archiving the Filings for Foreign Investment in Real Estate Sector (《關於做好外商投資房地產業備案工作的通知》). According to the notice, since July 1, 2008, the MOFCOM entrusts its provincial level branch to review the filing materials with respect to FIREEs and check and confirm the legality, authenticity and accuracy of the materials. The MOFCOM will archive the filing after receiving the archival form duly completed and submitted by the provincial level branches. The

notice also requires that the establishment (including the increase of registered capital) of a FIREE must comply with the principle of one project company engaging in one approved real estate project only.

On August 29, 2008, General Affairs Department of SAFE issued the Notice on Improving the Operational Administration on the Conversion of Foreign Exchange Capital Contribution of Foreign-invested Enterprises (《國家外匯管理局綜合司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》) (“Notice 142”). Pursuant to Notice 142, unless otherwise permitted by PRC laws or regulations, Renminbi 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.

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

According to the Several Opinions of the State Council on Further Strengthening the Utilization of Foreign Investment (《關於進一步做好利用外資工作的若干意見》), promulgated by the State Council on April 6, 2010, and the Notice on Devolution of Authority for Foreign Investment Projects (《關於做好外商投資項目下放核准權限工作的通知》), promulgated by NDRC on May 4, 2010, except where approval by the relevant departments under the State Council is required by the Catalogue of the Projects which Shall be Approved by the Government (《政府核准的投資項目目錄》), foreign investment in encouraged and permitted industries with a total investment of US\$300 million or less must be examined and approved by NDRC branches at the provincial level. Pursuant to the Notice on Issues Related to Devolution of Authority of Examination and Approval of Foreign Investment (《關於下放外商投資審批權限有關問題的通知》), promulgated by MOFCOM on June 10, 2010, MOFCOM branches at the provincial level are responsible for the examination and approval of establishment and modifications of foreign-invested enterprises in encouraged or permitted industries with a total investment of less than US\$300 million and with a total investment of less than US\$50 million in restricted industries.

Qualifications of a Real Estate Developer

Under the Provisions on Administration of Qualification of Real Estate Developers (《房地產開發企業資質管理規定》) (the “Provisions on Administration of Qualifications”), promulgated by MOHURD and implemented on March 29, 2000, a real estate developer must apply for registration of its qualification according to the Provisions on Administration of Qualifications. An enterprise may not engage in the development and sale of properties without a qualification classification certificate for real estate development. MOHURD oversees the qualifications of real estate developers with national operations, and local MOHURD authorities at or above the county level oversee the qualifications of local real estate developers.

In accordance with the Provisions on Administration of Qualifications, the qualification of a real estate development enterprise is classified into four classes: class 1, class 2, class 3 and class 4. Different classes of qualification should be examined and approved by corresponding authorities.

- Class 1 qualifications are subject to preliminary examination by MOHURD authorities at the provincial level and the final approval of MOHURD. A class 1 real estate developer is not restricted as to the scale of its real estate projects and may undertake a real estate development throughout the country.
- Class 2 or lower qualifications are regulated by MOHURD authorities at the provincial level subject to delegation to lower level government agencies. A real estate developer of class 2 or lower may undertake a project with a total GFA of less than 250,000 sq.m. subject to confirmation by MOHURD authorities at the provincial level.

Under the relevant PRC laws and regulations, MOHURD authorities will examine applications for registration of qualifications submitted by real estate developers by considering the professional personnel in their employment, financial condition and operating results. A real estate developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. A developer holding any specific qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business which is limited to another classification.

For a newly established and qualified real estate developer, the MOHURD authorities will issue a provisional qualification certificate within 30 days upon the receipt of the application by the authority. The interim qualification certificate will be effective for one year since its issuance, and MOHURD authorities may extend the validity to a period of no longer than 2 years considering the actual business situation of the enterprise. The real estate developer should apply for qualification of classification to the relevant MOHURD authorities within one month before expiration of its provisional qualification certificate.

Pursuant to the Provisions on Administration of Qualifications, the qualification of a real estate developer should be subject to annual inspection. The construction authority under the State Council or its authorized institution is responsible for conducting the annual inspection of the qualification of class 1 real estate developers. Measures for annual inspection of developers of class 2 or lower qualification shall be formulated by the construction authorities under the people's government of the relevant province, autonomous region or provincial-level municipality.

Land for Property Development

Under the Interim Regulations of the People's Republic of China on Grant and Assignment of the Use Right of State-owned Urban Land (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》) (the "Interim Regulations on Grant and Assignment"), promulgated by the State Council in May 1990, China adopted a system to grant and assign the rights to use state-owned land. A land user must pay a land premium to the state as consideration for the grant of the right to use a land parcel within a specified period of time, and land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the terms of use. Under the Urban Real Estate Law and the Interim Regulations on Grant and Assignment, the land administration authority at the city or county level may enter into a land grant contract with the land user to grant the land use rights. The land user must pay the land premium as specified in the land grant contract. After the full payment of the land premium, the land user may register the land use rights for a site intended for real estate development. Land use rights may be obtained through grant or allocation and in the latter case the user is not required to pay compensation pursuant to the PRC laws and regulations. Government-allocated land is not allowed to be transferred without the approval by the relevant PRC government authorities and the full payment of land premium as determined by the relevant PRC government authorities.

Under the Urban Real Estate Law, those who have been granted the land use rights must develop the land in accordance with the use and construction period as prescribed by the land use right grant contract. However, the concern of the MLR on handling of idle land began in 1999. On April 28, 1999, the MLR promulgated the Measures on the Disposal of Idle Land (《閒置土地處理辦法》) which provides the definition of idle land and sets out the corresponding punishment measures, including payment of idle land fee at no more than 20% of the land grant fee and resumption of idle land without compensation by the county-level and municipal administrative authorities.

To strengthen the handling of idle land, the MLR promulgated the Notice on Strengthening the Handling of Idle Land (《關於加大閒置土地處置力度的通知》) on 8 September 2007, which stipulates that owners of idle land will be charged a fee equal to 20% of the land grant/allocation fee for their land. The notice further emphasizes that the land that has been unused for more than 2 years should be forfeited. The notice also prescribes that the Land Use Right 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.

On January 3, 2008, the State Council issued a Notice on Promoting the Economic Use of Land (《關於促進節約集約用地的通知》) to enforce the policies concerning dealing with idle land. If a parcel of land has been idle for two years or more, it must be resolutely taken back without any compensation. If the land does not meet the statutory conditions for resumption, it must be dealt with in a timely manner and fully used after changing its original use, replacement by parity value, and arrangement of a temporary use of incorporation into governmental land reserves. If a parcel of land has been idle for more than one year but less than two years, an idle land fee must be charged, which shall be 20% of the land grant fee. The notice also establishes an additional land premium surcharges on idle land and authorizes MLR to formulate regulations to implement such surcharges. The notice further urges financial institutions to exercise caution when they process loan applications from property developers that have failed to commence construction, to complete development of at least one-third of the land area or to invest at least 25% of the total investment within one year of the construction date provided in the land grant contract.

On July 1, 2012, the amendment of the Measures on the Disposal of Idle Land (《閒置土地處置辦法》) (the “New Idle Land Measures”), became effective. According to the New Idle Land Measures, a parcel of land shall be defined as idle land if a state-owned construction land user fails to commence development and construction of construction land within one year after the starting date of the development and construction prescribed by the contract for paid use of state-owned construction land or the land allocation decision; while a parcel of land can be defined as idle land if the development and construction of the land has commenced, but the area developed and constructed 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 development and construction has been continuously suspended for one year.

County-level and municipal administrative authorities may, with regard to discovery of a suspected idle land, conduct an investigation and verification on the relevant land within thirty days and give an Idle Land Investigation Notice to the land user. After the above investigation and verification procedure, if the very land has been confirmed to be idle, county-level and municipal administrative authorities should issue a Confirmation Letter of Idle Land to the land user and make public the relevant information on their official website.

With the exception that the delay in commencement of construction is caused by force majeure or acts of government under certain circumstances, an idle land should be disposed of according to the following circumstances:

- If the construction work has not yet started after one year from the construction commencement date as stated above, county-level and municipal administrative authorities will, after obtained approval from the people's governments at the corresponding levels, issue a Decision on the Collection and Payment of Idle Land Fee to the land user, and a fine for idle land at 20% of the price of land granting or land allocation shall be imposed on the land user; or
- If the construction work has not begun after two years from the construction commencement date as stated above, a Decision on the Withdrawal of the Land-Use Right will be issued to the land user and the right to use the land shall be taken back by the state without any compensation.

However, before making the decision of the above sanctions, the county-level and municipal administrative authorities should give a written notice to the land user informing its right to apply for a hearing. If the land user applies for a hearing, the county-level and municipal administrative authorities should organize it in accordance with the Regulations on the Hearings of Land Resources (《國土資源聽證規定》).

Moreover, county-level and municipal administrative authorities will not accept the new land use application by the very land user who has been identified as violating laws and regulations and disobeying the contract of paid use of construction land or land allocation decision and hoarding land or elevating land price with malice, or conduct the registration of transferring, lease, mortgage and amendment of the idle land before completing the treatments under the New Idle Land Measures.

With regard to the delay in commencement of construction is caused by force majeure or acts of government under certain circumstances, county-level and municipal administrative authorities may, after negotiating with the land user, choose a way of disposing the idle land, including, but not limited to, extending the time period for development and construction by concluding a supplementary contract (but the extended period shall be no longer than one year after the starting date provided by the supplementary contract), changing the use of the land, arranging for temporary use and taking back the related land for value, and arranging for a land exchange.

Under current PRC laws and regulations on land administration, land for real estate development may be obtained by grant or by allocation. Under the Regulations on the Grant of State-Owned Construction Land Use Right through Public Tender, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》) promulgated by the MLR on May 9, 2002 and as amended on September 28, 2007, land for industry (except land for mining), commercial use, tourism, entertainment and residential commodity properties must be granted by way of public tender, public auction or listing-for-sale. The procedures are as follows:

- The land authority of the municipal and county government, as the grantor, must make an announcement at least 20 days prior to the date of the proposed public tender, public auction or listing-for-sale. The announcement must include basic particulars such as land parcel, qualification requirement of the bidder and auction applicants, methods and criteria on confirming the winning tender or winning bidder, and other conditions such as the deposit of the bid.

- After determining the winning tender or the winning bidder by the public tender, public auction or listing-for-sale, the grantor and the winning tender or winning bidder must then enter into a confirmation. The grantor should return the bidding or tender deposit to other bidding or auction applicants.
- The grantor and the winning tender or winning bidder must enter into a land grant contract according to the time and venue set out in the confirmation. The deposit of the bid paid by the winning tender or winning bidder will be used to set off part of the land premium of the state-owned land use rights.
- The winning tender or winning bidder should apply for the land use rights registration after paying off the land premium in full under the land grant contract. The local governments at or above the county level will issue the land use rights certificates.

Under the Regulation on Grant of State-Owned Land Use Rights by Agreement (《協議出讓國有土地使用權規定》) promulgated by the MLR on June 11 2003, except for the project that must be granted through public tender, auction and listing-for-sale as required by the relevant laws and regulations, land-use rights may be granted via transfer agreements, and the land premium for the transfer agreements of the state-owned land use rights must not be lower than the bottom price fixed by the state's regulations; and in terms with the areas where there is a benchmark land price, the lowest land premium for the transfer agreements shall not be lower than 70% of the benchmark land price for the level in which the target land falls within.

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

On September 30, 2007, MLR issued the Notice on Implementation of the State Council's Certain Opinions on Resolving Difficulties in Housing of Urban Low-Income Family and Further Strengthening the Macro-control of Land Supply (《關於認真貫徹〈國務院關於解決城市低收入家庭住房困難的若干意見〉進一步加強土地供應調控的通知》) as amended on December 3, 2010, to further enhance the control of land supply, which stipulates that the supply of the land to be developed for low-rent housing, economically affordable housing and low or medium priced and small or medium sized housing must be no less than 70% of the total land supply of the current year.

In order to control the land market and promote reasonable land utility, MLR, MOF and PBOC jointly promulgated the Administrative Measures on Land Reserve (《土地儲備管理辦法》) on November 19, 2007, in accordance with which "land reserve" refers to land acquisition, early-period land development and land reserve for future supply by land resources authorities at municipal or county level, for the purpose of adjusting land market and improving reasonable use of land resources. The enterprises must be selected through public tender to conduct the preliminary land development involving road development, supply of water, power and gas, telecommunications, lighting, landscaping and land leveling etc. according to applicable laws and regulations.

On November 18, 2009, MOF, MLR, PBOC, the Ministry of Supervision and the National Audit Office jointly issued the Notice on Further Strengthen the Management of Revenue and Expenditure from Land Granting (《關於進一步加強土地出讓收支管理的通知》) to require a minimum down payment of 50% of the land premium. The notice also provides that the installment period stipulated in the relevant land grant contracts may not exceed one year generally, provided that, for special projects, upon collective approval by the relevant government authorities, the installment period stipulated in the relevant land grant contracts can be two years. Developers will not be permitted to buy new land if they fail to pay such land premium in time in full. The new rules also forbid local governments from giving discounts to developers or allowing developers to delay payments except as stipulated by the State Council.

MLR promulgated the Notice on Problems Regarding Strengthening Control and Monitor of Real Estate Land Supply (《關於加強房地產用地供應和監管有關問題的通知》) on March 8, 2010. According to this notice, the land provision for social security housing projects, redevelopment of shanty towns and self-occupied small or medium sized housing should be no less than 70% of total land supply, and the land supply for large sized housing will be strictly controlled and land supply for villa projects will be banned. This Notice also requires that the lowest land premium should not be less than 70% of the benchmark land price in which the granted land is located and the real estate developers' bid deposit should not be less than 20% of the lowest grant price. The land grant contract must be executed within 10 working days after the land transaction is confirmed. The minimum down payment of the land premium should be 50% and must be paid within one month after the execution of the land grant contract. The remaining payment must be paid in accordance with the land grant contract, but not later than one year. If the land grant contract is not executed in accordance with the requirement above, the land may not be delivered and the deposit may not be returned. If no land premium is paid after the execution of the land grant contract, the land must be withdrawn.

On September 21, 2010, MLR and MOHURD jointly promulgated the Notice of Further Strengthening Control and Regulation of Land and Construction of Property Development (《關於進一步加強房地產用地和建設管理調控的通知》), which stipulated, among other things, that: (i) at least 70% of land designated for construction of urban housing must be used for economically affordable housing, housing for redevelopment of shanty towns and small to medium-sized ordinary commercial housing; in areas with high housing prices, the supply of land designated for small or medium sized, price-capped housing must be increased; (ii) developers and their controlling shareholders (as defined under PRC laws) are prohibited from participating in land biddings before the rectification of certain misconduct, including (1) illegal transfer of land use rights; (2) failure to commence required construction within one year from the delivery of land under land grant contracts due to such developers' own reasons; (3) noncompliance with the land development requirements specified in land grant contracts; and (4) crimes such as swindling land by forging official documents and illegal land speculation; (iii) developers are required to commence construction within one year from the date of delivery of land under the relevant land grant contract and complete construction within three years since commencement of the construction; (iv) development and construction of projects of low-density and large-sized housing must be strictly limited and the plot ratio of the planned GFA to the total site area of residential projects must be more than 1:1; and (v) the grant of two or more bundled parcels of lands and undeveloped land is prohibited.

In December 2010, MLR promulgated the Notice on Strict Implementation of Policies Regarding Regulation and Control of Property Land Use and Promotion of the Healthy Development of Land Markets (《關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知》), which provides, among other things, that: (i) cities and counties that have less than 70% of

their land supply designated for social security housing projects, housing for redevelopment of shanty towns or small or medium sized housing must not provide land for large-sized and high-end housing before the end of 2010; (ii) land and resource authorities in local cities and counties will report to MLR and provincial land and resource authorities, respectively regarding land with a premium rate of more than 50%; (iii) land designated for social security housing which is used for commodity property development against relevant policies or involved illegal income will be confiscated and the relevant land use rights will be withdrawn. Moreover, changing the plot ratio without approval is strictly prohibited.

The MLR promulgated the Opinion on Strengthening the Establishment of Regime concerning the Economic and Intensive Use of Land (《國土資源部關於大力推進節約集約用地制度建設的意見》) on March 16, 2012. The opinion provides that:

- Strengthening and improving the annual plan concerning the utilization of the land. The index for the newly-added farm land will be under strict control. The index for newly-added land for construction use in the central China and Northeast China will be reasonably arranged. The unused index for the undeveloped area in West China will be increased. The use of land for government-subsidized house, farmers' house, and environment-friendly project, medical and modern service will be arranged in the first priority. The use of land for infrastructure concerning key energy, communication and water resources will be reasonably arranged. The use of land for strategic new industry and hi-tech, high added-value, low energy-consuming new industry, new processes and new products will be supported.
- Encouraging the economic and intensive utilization of land. The economic and intensive use of land for industrial purposes will be encouraged. There will be no more charges for increasing the utilization rate and plot ratio for land for industrial purposes. If a project is concerning the industry to be encouraged and can use the land intensively, the price cannot be less than 70% of the lowest price listed in the Standard Quotation for the Land for Industrial Purposes.
- In 2012, local standard for the use of land for construction use will be cleared up. If the local standard violates the intensive utilization of land, it will be abolished; the prohibited catalogue and restricted catalogue for land use will be strictly enforced. The controlled index for land for construction use for industrial purposes and national and local standard for use of land for construction use will be strictly enforced and the standard shall be clarified in land use right assignment agreement or the order for allocating land.

On February 17, 2012, the MLR promulgated the Measures on Administration of Plot Ratio of Construction Land (《建設用地容積率管理辦法》) which came into effect on March 1, 2012. The Measures require that any entity or individual should comply with the plot ratio indicators determined according to the regulatory detailed planning approved legally and should not adjust the same randomly. If the adjustment is indeed required, the prescribed procedures should not be replaced in the form of government meeting minutes, etc. The measures stipulate that any construction entity or individual is not allowed to arbitrarily change the determined plot ratio, once the state-owned land use right is granted or allocated, except that it meets certain conditions. According to the Measures, as for a parcel of land of which plot ratio or other planning conditions have not been determined, its state-owned land use right is not allowed to be granted. If the plot ratio or other planning conditions are not included in the land use right grant contract, such contract is null and void.

On May 1, 2012, the MLR promulgated the Notice on Further Strengthening and Improving the Pre-examination of Land for Construction Projects (《關於進一步加強和改進建設項目用地預審工作的通知》) which reinforces the importance of pre-examination administration of land for commercial and industrial purposes. Taking advantage of tender, auction and listing-for-sale to avoid the pre-examination of the utility of land is strictly prohibited, so is entering into a land use right grant contract in advance or issuing a land use right certificate in substitute for a pre-examination opinion. Without passing a pre-examination, no application may be raised in terms of a project permit or construction land permit. On-line filing for records and tracking supervision shall also be strengthened.

On 26 February 2013, the General Office of the State Council (國務院辦公廳) promulgated the Circular on Continuing Regulation of the Real Estate Market (《關於繼續做好房地產調控工作的通知》). Pursuant to the Circular, an annual plan for the supply of lands for housing shall be prepared in a scientific manner in all parts of China based on the situation of their supply and demand in order to maintain a reasonable and stable supply of lands for housing. In principle, the total supply of lands for housing in 2013 shall not be lower than the average actual supply for the past five years. Some popular cities and regional central cities where the imbalance between supply and demand of housing is significant and the pressure of increasing property price is relatively high, as well as the cities where the completion rate of the plan for the supply of lands for housing was relatively low during the past two years, shall further increase their total annual supply of lands for housing, thus increasing the proportion of supply of lands for housing in the annual land supply plan.

Development of a Real Estate Project

Commencement of Development of a Property Project

When carrying out the feasibility study for a construction project, the construction entity or the developer must make a preliminary application for construction on the relevant site to the relevant land administration authorities in accordance with the Measures for Administration of Examination and Approval for Construction Land (《建設用地審查報批管理辦法》) promulgated by the MLR in March 1999 and amended on November 30, 2010, and the Measures for Administration of Preliminary Examination of Construction Project Land (《建設項目用地預審管理辦法》) promulgated by the MLR in July 2001, as amended in October 2004 and November 2008. After receiving the preliminary application, the land administration authorities will carry out preliminary examinations of various aspects of the construction project in compliance with the overall zoning plans and land supply policy of the government, and will issue a preliminary approval in respect of the project site if its examination proves satisfactory. The land administration authorities at the relevant municipal or county level will enter into a land grant contract with land user and issue an approval to the construction entity or the developer.

Planning for a Real Estate Project

Under the Measures for the Administration of Planning of Grant and Assignment of Right to Use Urban State-owned Land (《城市國有土地使用權出讓轉讓規劃管理辦法》) promulgated by MOHURD in December 1992 and as amended on January 26, 2011, the grantee under a land grant contract, i.e. a real estate developer, must further apply for a Construction Land Planning Permit from the relevant municipal planning authority. After obtaining such permit, a real estate developer will organize the necessary planning and design work in accordance with planning and design requirements. Pursuant to the PRC Law on Urban and Rural Planning (《中華人民共和國城鄉規劃法》) promulgated by the Standing Committee of NPC in October 2007, effective as of January 1,

2008, the real estate developer must apply to the planning administration authorities at the municipal or county level for a Construction Work Planning Permit before the construction of buildings, structures, roads, pipelines and other construction projects.

However, if a construction project is proceed without obtaining Construction Work Planning Permit or by violating the provisions of the Construction Work Planning Permit, the competent department of urban and rural planning of the local government at or above the county level shall order it to stop construction. If it is still possible for the construction entity or individual to take measures to eliminate the impact on the implementation of urban and rural planning, the department shall order it or him to correct within a certain time limit and impose a fine of not less than 5% but not more than 10% of construction cost; if it is impossible to take measures to eliminate the impact, the department shall order the construction entity or individual to dismantle the building or structure within a certain time limit and confiscate the real objects or the relevant income, and may also impose a fine not more than 10% of construction cost.

Expropriation of and Compensation for Housing on State-owned Land

In accordance with the Regulations for the Expropriation of and Compensation for Housing on State-owned Land (《國有土地上房屋徵收與補償條例》) promulgated by the State Council and implemented in January, 2011, with regard to the expropriation of the housing of entities and individuals on the State-owned land for the need of public interest, the owners of the housing being expropriated shall be offered a fair compensation.

Compensation offered by governments at municipal and county levels that makes housing expropriation decision to parties with housing being expropriated includes: (i) compensation for the value of the housing being expropriated; (ii) compensation for relocation and temporary settlement caused by expropriation of housing; and (iii) compensation for the loss arising from the suspension of production and operation caused by expropriation of housing.

The amount of compensation for value of housing being expropriated shall not be less than market price of the real estate similar to it on the announcement date of the housing expropriation decision. The value of housing being expropriated shall be appraised and determined by a real estate price appraisal institution with corresponding qualification according to the housing expropriation appraisal measures. A party that objects to the value of the housing being expropriated appraised and determined may apply to the real estate price appraisal institution for review of the appraisal. A party that objects to the review result may apply to the real estate price appraisal expert committee for authentication.

The parties with housing being expropriated may choose monetary compensation, or may choose to exchange the property right of housing. If the parties with housing being expropriated choose to exchange the property right of housing, governments at municipal and county levels shall provide housing used for the exchange of property right, and calculate and settle the difference between the value of housing being expropriated and the value of housing used for the exchange of property right. If residential housing of an individual is expropriated due to renovation of old urban district and individual chooses to exchange for the property right of housing in the area being renovated, governments at municipal and county levels that make the housing expropriation decision shall provide the housing in the area being renovated or the nearby area.

Construction of a Property Project

When the construction site has been properly prepared and is ready for the commencement of construction works, a developer must apply for a Construction Work Commencement Permit (建設工程施工許可證) from construction authorities at or above the county level according to the Measures for Administration of Granting Permission for Commencement of Construction Works (《建築工程施工許可管理辦法》) promulgated by MOHURD in October 1999, as amended in July 2001.

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

Completion of a Property Project

According to the Regulation on the Quality Management of Construction Projects (《建設工程質量管理條例》) promulgated and implemented by the State Council on January 30, 2000, the Measures for Reporting Administration of Acceptance Examination Upon Completion of Housing Construction Projects and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by MOHURD on April 4, 2000 and as amended on October 19, 2009, and the Interim Provisions on Acceptance Examination Upon Completion of Housing Construction Projects and Municipal Infrastructure (《房屋建築工程和市政基礎設施竣工驗收暫行規定》) promulgated and enforced by MOHURD on June 30, 2000, upon completion of construction of a project, a real estate developer must apply for the acceptance examination to the property development authority under government at the county level or above and report details of the acceptance examination, upon which a “Record of Acceptance Examination upon Project Completion” will be issued. A real estate development project may not be delivered until and unless it has satisfactorily passed the necessary acceptance examination. According to the Development Regulations, where a property project is developed in phases, an acceptance examination may be carried out for each completed phase.

Transfer of Real Estate

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

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

- the land premium has been paid in full for the grant of the land use rights as required by the land grant contract and a land use rights certificate has been obtained;

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

If the land use rights were originally obtained by allocation, such allocation may be changed to land use rights grant if approved by the government vested with the necessary approval power as required by the State Council. After the competent government authorities approve such change, the grantee must complete the formalities for the grant of the land use rights and pay the land premium according to the relevant laws and regulations.

Sale of Commodity Properties

Under the Measures for Administration of Sale of Commodity Properties (《商品房銷售管理辦法》) promulgated by MOHURD in April 2001, sale of commodity houses may include both sales before the completion of the properties, or pre-sale, and sales after the completion of the properties.

Any pre-sale of commodity buildings must be conducted in accordance with the Measures for Administration of Pre-sale of Urban Commodity Properties (《城市商品房預售管理辦法》) (the “Urban Pre-sale Regulation”), promulgated by MOHURD in November 1994, as amended in August 2001 and July 2004, and the other related regulations. The pre-sale regulations provide that any pre-sale of commodity properties is subject to specified procedures. According to the current PRC laws and regulations, a pre-sale permit must be in place before the pre-sale of a commodity building. Specifically, a developer intending to sell a commodity building before its completion must apply to the real estate development authorities for a pre-sale permit. The pre-sale proceeds of commodity buildings must be used to develop the relevant project so pre-sold. A commodity building may be sold before completion only if:

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

Commodity buildings may be put to post-completion sale and delivery after they have passed the completion examination and satisfy various preconditions for such sale. Before the post-completion sale of a commodity building, the developer must, among other things, submit the real

estate development project manual and other documents relating to the project evidencing the satisfaction of the preconditions for post-completion sale to the real estate development authority for its record.

According to the Regulations on Administration of Development of Urban Property (《城市房地產開發經營管理條例》) and the Urban Pre-sale Regulation, for the pre-sale of a commodity property, the developer must sign a contract on the pre-sale of the commodity property with the purchaser. The developer must, within 30 days of signing the contract, apply for registration and filing of the contract for pre-sale of commodity property at the relevant departments of the municipal or county-level governments. Property administrative departments are required to use network information technology to gradually implement a web-based registration of pre-sale contracts.

On April 30, 2005, MOHURD and other departments issued the Opinion on Stabilizing Residential Property Prices (《關於做好穩定住房價格工作的意見》) which provided the following with respect to commodity property pre-sales and sales:

- The purchaser of a pre-sold commodity property is prohibited from transferring such property that is still under construction. Before a pre-sold commodity property is completed and delivered and the purchaser obtains the individual property ownership certificate, the property administrative department must not give effect to any transfer of the commodity property. If there is discrepancy between the name of the applicant for property ownership and the name of the purchaser in the pre-sales contract, the property ownership registration administration must not record the application of property ownership; and
- A real name identification system must be applied to house purchase and an immediate record filing network system for pre-sale contracts of commodity buildings must be established.

On April 13, 2010, MOHURD issued the Notice on Further Enhancing the Supervision of the Real Estate Market and Perfecting the Pre-sale System of Commodity Houses (《關於進一步加強房地產市場監管完善商品住房預售制度的有關問題的通知》). Pursuant to the notice, without the pre-sale approval, the commodity properties are not permitted to be pre-sold and the real estate developer are not allowed to charge the buyer any deposit or pre-payment or payment of the similar nature. In addition, the notice urges local governments to enact regulations on sale of completed commodity properties in light of the local conditions, and encourages property developers to sell completed commodity properties.

The Provisions on Sales of Commodity Properties at Clearly Marked Price (《商品房銷售明碼標價規定》) was promulgated by the NDRC on 16 March 2011 and became effective on 1 May 2011. According to the provisions, any real estate developer or real estate agency (“real estate operators”) is required to mark the selling price explicitly and clearly for both newly-build and second-hand commodity properties. The provisions require real estate operators to clearly indicate the prices and relevant fees of commodity properties, as well as other factors affecting the prices of commodity properties to the public. With respect to the real estate development projects that have received property pre-sale permit or have completed the filing procedures for the sales of constructed properties, real estate operators shall announce all the commodity properties available for sales on at once within the specified time limit. Furthermore, with regard to a property that has been sold out, real estate operators are obliged to disclose this information and to disclose the actual transaction price. Real estate operators cannot sell commodity properties beyond the explicit marked price or

charge any other fees not explicitly marked. Moreover, real estate operators may neither mislead properties purchasers with false or irregular price marking, nor engage in price fraud by using false or misleading price marking methods.

Leasing of Buildings

The Measures for Administration of Lease of Commodity Housing (《商品房屋租賃管理辦法》) promulgated by MOHURD on December 1, 2010 and implemented on February 1, 2011, requires parties to a leasehold arrangement of a property shall register the leasing agreement with property administrative authorities within 30 days after entering into such leasing agreement under local government at the municipal or county level where the property is situated. In addition, enterprise may be imposed a fine of RMB1,000 to RMB10,000 and individuals of RMB1,000 or less if they do not register leasing agreement within time limit required by competent authorities.

Mortgage of Real Estate and Real Estate Loans

Mortgage of Real Estate

Under the Urban Real Estate Law, the PRC Guarantee Security Law (《中華人民共和國擔保法》) promulgated by the Standing Committee of the NPC on June 30, 1995 and implemented on October 1, 1995, and the Measures on the Administration of Mortgages of Urban Real Estate (《城市房地產抵押管理辦法》) promulgated by MOHURD in May 1997 and as amended on August 15, 2001, when a mortgage is created on a property legally obtained, such mortgage must be simultaneously created on the land use rights of the land on which the property is situated. The land use rights of state-owned lands acquired through means of grant, when being mortgaged, the properties on the land must also be mortgaged at the same time. The mortgager and the mortgagee must sign a mortgage contract in writing. Within 30 days after a property mortgage contract is signed, the parties to the mortgage must register the mortgage with the property administrative authority at the location where the property is situated. A property mortgage contract will become effective on the date of registration of the mortgage. If a mortgage is created on the property in respect of which a building ownership certificate has been obtained, the registration authority must make an entry under the "third party rights" item on the original building ownership certificate and then issue a certificate of third party rights to the mortgagee. If a mortgage is created on the commodity property put to pre-sale or under construction, the registration authority will record the details on the mortgage contract. If construction of a property is completed during the term of a mortgage, the parties involved must re-register the mortgage of the property after issuance of the certificates evidencing the ownership of the property.

The Property Rights Law further widens the scope of assets that can be mortgaged, allowing for any asset associated with property rights to be mortgaged as collateral unless a specific prohibition under another law or regulation applies.

Property Development Loans And Loans for Individual Housing Consumption

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

- The property loan by commercial banks to property enterprises must be granted only by the item of property development rather than cash flow loan item or other loan item. Any kind of loan cannot be granted for the projects which do not have land-use rights certificates, construction land planning permits, construction works planning permits and construction work commencement permits;
- Property loans may be granted to property enterprises which are qualified for property development, rank high in credibility and have no overdue payment for construction. Such loans must be given in full support of residential housing projects which conform to the purchasing capacity of families with medium-to-low income, and must be properly restricted where projects involve building properties of large size and/or cover large area, such as luxury commodity houses and villas. For property enterprises with commodity houses of high vacancy rate and debt ratio, strict approval procedures must be applied for their new property development loans and their activities must also be subject to close monitoring;
- Commercial banks shall not grant loans to property developers to pay off land premium;

The first installment requirement was subsequently increased to 30% of the property price for residential units with a unit floor area of 90 sq.m. or more, effective on June 1, 2006. See “— Measures on Property Price Stabilization” below.

In a Circular on Facilitating the Continuously Healthy Development of Property Market (《關於促進房地產市場持續健康發展的通知》) issued by the State Council in August 2003, a series of measures were adopted by the government to control the property market. They included, among others, strengthening the construction and management of economically affordable houses, increasing the supply of ordinary commodity houses and controlling the construction of high quality commodity houses. Besides, the government also staged a series of measures on the lending for residential development. They included, among others, strengthen efforts in housing provident fund collection and the granting of loans, improving the guarantee mechanism of individual home loans and strengthening the monitoring over property loans. It is expected that the circular will have a positive effect on the development of the PRC property market in the long run by facilitating a continuously healthy growth of the property market in China.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks (《商業銀行房地產貸款風險管理指引》) issued by China Banking Regulatory Commission (中國銀行業監督管理委員會) (“CBRC”) on August 30, 2004, any property developer applying for property development loans must have at least 35% of capital required for the development.

According to the 171 Opinions, FIREEs which have not paid up their registered capital, or failed to obtain a land-use rights certificate, or with less than 35% of the capital for the project, will be prohibited from obtaining a loan in or outside China, and SAFE may not approve the registration of foreign loans for such enterprises.

In September 2007, PBOC and CBRC promulgated a Circular on Strengthening the Administration of Commercial Real Estate Credit Loans (《關於加強商業性房地產信貸管理的通知》). The circular aims to tighten the control over real-estate loans from commercial banks to prevent excessive credit granting. The measures adopted include:

- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment to 50% of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark lending interest rate, (iv) limiting the terms of such bank loans to no more than 10 years, although the commercial banks are allowed flexibility based on its risk assessment;
- for a purchaser of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45% of the purchase price of the underlying property, with the other terms to be decided by reference to commercial properties;
- prohibiting commercial banks from providing loans to real-estate developers who have been found by relevant government authorities to be hoarding land and properties;
- prohibiting commercial banks from lending to real estate developers solely for the payment of land premiums; and
- commercial properties purchase by loans must have been completed and passed completion acceptance inspection.

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 July 29, 2008, PBOC and CBRC jointly issued the Notice on Promoting Economic Use of Land through Finance (《關於金融促進節約集約用地的通知》). Commercial banks must provide financial support preferentially to the projects with economic use of land, such as the development of low-rent housing, economically affordable housing, price-capped housing and properties with a total GFA of less than 90 sq.m. The commercial banks are prohibited from granting loans to the property developers for payment of land premium. The Notice emphasizes tightening the policy requirements and management of loans to certain projects, including:

- the management of loans for construction projects. The commercial banks are prohibited from providing loans to (i) the projects which do not meet the relevant planning and control requirements, (ii) the projects which have illegal land use and (iii) the projects for which the relevant land falls into the catalog of banned land use projects. Where a loan has already been granted to such a project, it must be gradually recovered provided that necessary protection measures have been taken. A financial institution must exercise caution in granting a loan to projects falls into the catalog of restricted land use projects.
- the examination of loans for municipal infrastructures and industrial land use projects.
- the management of loans for rural collective construction land use projects. The commercial banks are prohibited from providing loans to the commercial projects which using rural collective land.

- the management of credit for commercial property development projects.

With respect to loans provided for land reservation in the form of mortgage, a land use rights certificate must be obtained. In addition, the maximum mortgage ratio must not exceed 70% of the appraised value of the underlying collateral and, in principle, the term of loan must not exceed two years. When the relevant land and resource authority confirms that an enterprise has developed less than 1/3 of the site area of land or has invested less than 1/4 of the total investment for the project after one year from the date of construction commencement as stipulated in the land grant contract, the commercial bank must exercise caution in granting loans to the enterprise and strictly control extended loans or rolling credits to it.

In December 2008, the General Office of State Council issued the 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 opinion provides that in order to expand domestic demand and encourage purchase of ordinary residential housing, residents who purchase ordinary self-used housing for the first-time by borrowing a mortgage loan must enjoy preferential policies in relation to loan interest rates and down payment. For residents who have already borrowed a mortgage loan and purchased self-occupied housing for the first time, if the GFA per person of that first housing is lower than the local average, such residents may still enjoy the preferential policies in relation to loan interest rates and down payment when they purchase a second self-occupied house. For any other application on mortgage loans for purchasing a second or subsequent housing unit, the interest rate must be determined by the commercial banks based on the benchmark interest rate and the banks' risk assessments.

In September 2010, PBOC and the CBRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan Policies (《關於完善差別化住房信貸政策有關問題的通知》), which provides, among other things, that all property companies with records of being involved in idle land, changing the use of land, postponing the construction commencement or completion date, hoarding properties or other non-compliance will be restricted from obtaining bank loans for new projects or extension of credit facilities.

Property Management

According to the Regulation on Property Management (《物業管理條例》) enacted by the State Council on June 8, 2003, effective September 1, 2003, and as amended on August 26, 2007, the government implements a qualification scheme system in monitoring the property service enterprises. Under the Measures for the Administration of Qualifications of Property Service Enterprises (《物業服務企業資質管理辦法》) promulgated by MOHURD in March 2004 and amended in November 2007, a property service enterprise must apply for assessment of its qualification by the relevant qualification approval authorities. An enterprise which passes such a qualification assessment will be issued a qualification certificate. No enterprise may engage in property service without completion of such qualification assessment conducted by the relevant government authorities with a qualification certificate obtained.

According to the above MOHURD measures, the qualification of a property service enterprise is classified into three classes. Property service enterprises with class one qualification may undertake various property management projects. Property service enterprises with class two qualification may undertake the property management business of residential projects of less than 300,000 sq.m. and the non-residential projects of less than 80,000 sq.m. Property service enterprises with class three qualification may undertake the property management business of residential projects of less than 200,000 sq.m. and non-residential projects under 50,000 sq.m. MOHURD is

responsible for the issuance and administration of class one qualification certificates. The MOHURD authorities at provincial level governments are responsible for the issuance and administration of class two qualification certificates. Designated MOHURD or similar authorities at lower level governments are charged with the issuance and administration of class three qualification certificates.

In accordance with the Property Rights Law, owners in a property project may engage or dismiss its property management company with the consent of more than half of the owners who in the aggregate hold more than 50% of the total non-communal area of the project.

Measures on Property Price Stabilization

On May 24, 2006, the General Office of State Council issued the Notice on the Opinions on Adjusting the Housing Supply Structures and Stabilizing Property Prices (《關於調整住房供應結構穩定住房價格的意見》). As to the adjustment of housing supply structure and stabilization of housing prices, the opinions provide that:

(i) Adjustment of the housing supply structure

- The construction of small or medium sized ordinary commodity houses at low or medium prices should be encouraged and promoted to satisfy the self-use demands of local residents; and
- Since June 1, 2006, for each commodity property newly approved for commencement of construction, the proportion of properties with a GFA less than 90 sq.m. shall comprise at least 70% of the total area approved for development and construction. In case of any adjustment of this proportion, to the extent required due to special circumstances, municipalities directly under the Central Government, cities specifically designated in the State plan, and provincial capitals shall submit their special requests to MOHURD for approval.

(ii) Adjustments to tax, credit and land policies

- Since June 1, 2006, the business tax upon the transfer of a residential property by an individual within five years from the date of purchase will be levied on the basis of the full amount of the sale proceeds. Transfers of ordinary residential properties by individuals who have held them for five years or more are exempted from business tax. Transfers of non-ordinary residential properties by individuals who have held them for five years or more are subject to business tax calculated on a net basis;
- In order to restrain real estate developers from holding land and properties for future sale by taking advantage of bank loans, commercial banks are prohibited from lending funds to real estate developers with a capital ratio, calculated by dividing the registered capital by the gross investment required for the relevant projects, of less than 35%. For developers holding a large amount of idle land and vacant commodity properties, commercial banks must restrict the grant or extension of revolving credit facilities in any form pursuant to prudential principles. Commodity properties vacant for more than three years should not be accepted as security for loans by commercial banks;

- The minimum amount of down payment has been increased to 30% of the purchase price of the underlying residential property if the underlying property has a GFA of 90 sq.m. or more, as effective from 1 June, 2006. For individuals who apply for individual home loans for a properties for self-use with a GFA less than 90 sq.m., the down payment remains at 20%;
- At least 70% of the land supply for residential property development must be used for the development of low or medium priced and small or medium sized housing and low-rent housing. The development land use rights must be granted through public tender. Land supply for villas will continue to be suspended, and land supply for low-density and large-scale residential properties will be strictly controlled; and
- When construction has not started after one year from the starting date provided by the land grant contract, idle land fees must be charged toward the higher level as permitted; if construction has not started after two years, the land use right may be withdrawn without any refunding. Idle land includes parcels where, although development and construction has started on time, the developed GFA is less than one third of the total GFA to be developed and constructed, or the invested amount is less than 25% of the total amount of investment for the project, and the development and construction has been continuously suspended for no less than one year without approval.

(iii) Regulating the property market

- Any property project which has received the construction works planning permit, but has not started its construction is required to re-examination with regard to its planning. If the project is not in line with the planning controlling requirements, the construction work planning permit, the construction work commencement permit and the pre-sale permit shall not be issued. If the design of the project has been altered without approval, or the construction has violated the relevant requirements, the project may be disposed of or forfeited; and
- The competent authorities must investigate and punish illegal trades, including contractual fraud. Any illegal pre-sale of commodity properties without fulfilling the necessary conditions must be ordered to be stopped and punished. With respect to the real estate developers that hold properties for future sale or maliciously manipulate property prices, the competent authorities shall strictly and forcefully rectify and prevent. Severe violators will be punished by monetary fines or have business licenses revoked in accordance with applicable laws and regulations. Responsible Persons shall be investigated.

The 171 Opinions aims to tighten the access of foreign capital into the PRC real estate market and to restrict property purchases in China by foreign institutions or individuals. Branches and representative offices of foreign institutions in China as well as foreign individuals who work or study in China for more than one year may purchase commodity properties for their own use but not for any other purposes; foreign institutions which have no branches or representative offices in China or foreign individuals who work or study in China for less than one year are prohibited from purchasing any commodity properties in China. In September 2006, SAFE and MOHURD jointly issued the Notice on Regulating Issues Relating to Management of Foreign Exchange of Real Estate Market (《關於規範房地產市場外匯管理有關問題的通知》) (the “47 Notice”), to implement the 171 Opinions. The 47 Notice provides specific procedures for purchasing properties by foreign

institutions and foreign individuals. The 47 Notice also forbids a FIREE to apply for overseas loans if it has failed to pay its registered capital in full or obtain the land use rights certificates, or its own capital funds do not reach 35% of the total investment for the relevant project.

In January 7, 2010, the General Office of State Council issued a Notice on Facilitating the Stable and Healthy Development of Property Market (《關於促進房地產市場平穩健康發展的通知》), which adopted a series of measures to strengthen and improve the regulation of the property market, stabilize market expectation and facilitate the stable and healthy development of the property market, which include, among others, measures to increase the supply of economic affordable housing and low-rent housing, provide guidance for the purchase of property, restrain speculation of properties, and strengthen risk prevention and market supervision. Additionally, it explicitly provides that the minimum down payment of a second or further residential property through mortgage financing for a family (including the borrower, the borrower's spouse and minor children) that has already purchased a residential property through mortgage financing shall be no less than 40% of the purchase price.

On April 17, 2010, the State Council issued a Notice on Strict Control of the Escalation of Property Price in Certain Cities (《關於堅決遏制部分城市房價過快上漲的通知》) to adopt a series of new measures to keep the property price from surging in certain cities in China. The new measures include, among others:

(i) Higher minimum down-payment requirements

- First-time home buyers (including the buyer, the buyer's spouse and minor children) must make a minimum down payment of 30% of the purchase price if the self-use property has a GFA of 90 sq.m. or more;
- Second-time home buyers must make a minimum down payment of 50% of the purchase price and a minimum mortgage loan interest rate at 110% of the relevant PBOC benchmark one-year lending interest rate shall be applied; and
- Commercial banks should significantly increase the ratio of minimum down payment to the purchase price and the minimum mortgage loan interest rate, respectively, for buyers who purchase a third or further residential properties through mortgage financing.

(ii) Control over bank lending

- In regions where property prices have been surging, commercial banks may suspend granting mortgage loans to home buyers who purchase a third or any further residential properties;
- Commercial banks are required to suspend granting mortgage loans to non-local home buyers who fail to provide certifications evidencing their payment for over one year of local tax payment or social insurance; and
- The local governments may adopt interim measures to impose limits on the maximum number of units that one family may own.

(iii) Punishment of speculative developers

- Commercial banks are not allowed to grant loans to developers who hold idle land or manipulate land price; and
- CSRC may suspend review of applications from above-mentioned developers for listing of shares, refinancing or restructuring.

(iv) Disclosure of property ownership

- Property development projects which have received the pre-sale permit and have completed-properties-sale information submitted to the local government for record shall have the information of properties for sale disclosed to the public all at once and within a specified period of time. In addition, real estate developers shall sell the properties at the exact price provided to the local government.

On September 29, 2010, MOF, SAT and MOHURD jointly issued the Notice on Adjustments to Deed Tax and Individual Income Tax on Real Estate 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》), according to which, a family (including the purchaser, the purchaser's spouse and minor children) purchasing its first ordinary residential property will enjoy a 50% reduction on deed tax payment; in case that the GFA of fore-mentioned property is less than 90 sq.m., the deed tax rate will be 1%. Individuals who purchase another residential property within one year after selling their own residential properties shall no longer enjoy exemption or reduction of individual income tax.

On September 29, 2010, PBOC and CBRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan Policies (《關於完善差別化住房信貸政策有關問題的通知》), according to which, the minimum down-payment has been raised to 30% of the purchase price of the commodity residential property, and commercial banks shall suspend granting mortgage loans to families that purchase a third or further residential property or non-local residents who fail to provide one-year or longer tax payment certificates or social insurance payment certificates. For a mortgage on the second residential property, the minimum down-payment must be 50% of the purchase price and the interest rate must be no less than 1.1 times that of the corresponding benchmark interest rate over the same corresponding period released by the PBOC.

On January 26, 2011, the State Council issued the Notice on Further Adjustment and Control of Property Markets (《關於進一步做好房地產市場調控工作有關問題的通知》) which requires, among other restrictive measures: (i) a minimum down-payment of 60% of the total purchase price with a minimum mortgage interest rate of 110% of the benchmark rate published by PBOC for the purchase of a second residential property; and (ii) in municipalities directly under the central government, cities listed on state plans, provincial capitals, and cities where the housing prices are overly high or increasing at an excessively high rate, local residents with two or more residential properties, non-local residents with one or more residential properties and non-local residents that are unable to provide documentation certifying payment of local tax or social insurance payment for a specified time period, are not permitted to purchase any residential properties located in the local administrative area.

On January 27, 2011, MOF and SAT jointly issued the Notice on Adjusting the Business Tax Policies upon Transferring Residential Properties by Individuals (《關於調整個人住房轉讓營業稅政策的通知》). Pursuant to the notice, business tax will be levied upon the transfer of a residential property held by an individual for less than five years and the amount of business tax to be paid will

be calculated based on the full amount of the sale proceeds. For an individual transferring a non-ordinary residential property held for five years or more, the business tax to be paid will be calculated based on the difference between the sale proceeds and the original purchase price. An individual transferring an ordinary residential property held for five years or more will be exempted from the business tax.

The MLR promulgated the Notice on Accomplishment of Real Estate Land Administration and Control in 2012 (《國土資源部關於做好2012年房地產用地管理和調控重點工作的通知》) on February 25, 2012. The notice provides that:

- The real estate control policy shall be firmly performed and the key tasks shall be clarified. The real estate land administration and control is confronting fundamental requirements and key tasks that the control policy by central government shall be strictly implemented, the supervision and control shall be strengthened, while the price of real estate and land shall be stable and reasonable.
- The real estate land supply shall be properly managed for the purpose of the welfare of the masses. Relevant authorities shall compile the annual supply plan of land for residential purposes of year 2012 from a scientific and reasonable perspective. The planned land supply quantity shall be no smaller than the average quantity of the recent five years, no less than 70% among which shall be designated for social security housing projects, housing for redevelopment of shanty towns and small or medium sized residential housing. The supply of land for social security housing projects shall be guaranteed. The supply of high-end housing land shall be strictly controlled and no land shall be permitted for the development of villas.
- The construction land permission procedure for social security housing projects shall be accelerated.
- Unlawful acts shall be strictly punished and the development and construction shall be vigorously encouraged. Unlawful acts, including any of the following ones, shall be prohibited: a land use right is granted over a parcel of land where the land area exceeds the size approved by the relevant competent authorities; bundled transfer of more than one parcel of land; a land use right is granted over a parcel of land where the demolition of buildings erected on such land has not been carried out of the occupants of such land have not been compensated for the demolition and resettlement; a land use right is granted over a parcel of land with a plot ratio of less than one. A reporting system shall be implemented according to which, when concluding a land grant contract, a provision providing land users report to land and resources authorities in a written form before or at the commencement and completion of a project.
- Supervision analysis and media propaganda shall be strengthened to provide a positive guidance towards the market. Relevant local departments shall strengthen the supervision over land price. A record filing system of abnormal land purchases shall be implemented and improved.

The Notice of the General Office of the State Council on Effectively Regulate the Real Estate Market issued by the General Office of the State Council on February 26th, 2013 provides that, with the view to continuing the regulation of the real estate market in 2013 and promoting the stable and healthy development of the real estate market, the following measures shall be taken:

- The provincial and municipal governments shall take their respective responsibilities in stabilizing the prices in the real estate market;
- Purchase of residential properties for investment purposes shall be firmly restricted. Firstly, the measures of commodity properties purchase restriction shall be performed and further improved. All administrative regions of a municipality are covered by the aforementioned restriction policy no matter the property to be purchased is newly developed or second hand. A non-locally registered family which (i) already has one or more residential properties; (ii) cannot provide the evidence of tax levy or social insurance payment for a certain term, is not allowed to purchase a new property within the local administrative region. Secondly, the policy of differentiated housing credit shall be strictly enforced. At last, tax authorities shall closely cooperate with departments of housing and urban-rural development of levy the individual income tax, which is payable on the sales of owner-occupied properties at 20% of the transfer income if the original value of the properties can be verified through historical information (such as tax collection and administration, property registration, etc.);
- The supply of ordinary commodity properties and land for property construction shall be increased;
- The planning and construction of affordable housing projects shall be accelerated;
- Market regulation and expectation management shall be strengthened. From 2013 onward, all regions shall raise the threshold of commodity properties pre-sale. Besides, the credit management of real estate development enterprises shall be reinforced. Relevant departments shall establish a joint action mechanism to mete out heavier punishments against real estate development enterprises that hold idle land, engage in land speculation, hoard properties, drive up prices or commit other illegalities or irregularities. Departments of land and resources shall prohibit such real estate development enterprises from bidding for new land plots, banking financial institutions shall not grant loans for their new development projects, securities regulatory authorities shall suspend the approval of their applications for listing, refinancing or major asset restructuring, and banking regulatory authorities shall prohibit them from raising funds through trust schemes.

Further implementing opinions have been introduced in Shanghai and Chongqing where our real estate projects are located. Shanghai municipal government promulgated the Notice of the Opinions on Implementing the Notice of the General Office of the State Council on Effectively Regulate the Real Estate Market, which stipulates that the examination on qualifications of lenders such as non-local residents, foreigners, the divorced and the young shall be reinforced. Meanwhile, the requirements of the quantity of suites to be constructed, GFA of suites, facility conditions, project commencing and completing schedule, industrialization of residential properties, etc., shall be included in the land grant contract as land grant basis. The implementing opinion promulgated by Chongqing municipal government stipulates that, in terms of the tax levy policy, real estate tax shall be levied to individually owned single villas and high-end residential properties purchased by

individuals after the effective date of the implementing opinion located in Chongqing major districts, as well as the second or above ordinary commodity properties purchased by non-local individuals who have no enterprises or occupations in Chongqing.

Major Taxes Applicable to Property Developers

Income Tax

According to the EIT Law, a uniform income tax rate of 25% is currently applied to foreign invested enterprises in China as well as PRC enterprises. In addition, under the EIT Law, enterprises established under the laws of jurisdictions outside China with their “de facto management bodies” located within mainland China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The EIT Law provides that “de facto management body” of an enterprise is the organization that exercises substantial and overall management and control over the production, employees, books of accounts and properties of the enterprise.

The EIT Law also provides a five-year transition period starting from its effective date of January 1, 2008 for those enterprises which were established before the promulgation date of the EIT Law and which were entitled to a preferential lower income tax rate under the previously effective tax laws or regulations. The income tax rate of such enterprises will gradually transit to the uniform tax rate of 25% within the transition period. The Circular on Implementing the Transitional 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》) issued by the State Council on December 26, 2007 gave more details on the transition.

Furthermore, the EIT Law provides that an income tax rate of 20% will normally be applicable to dividends payable to non-PRC enterprise investors to the extent derived from sources within mainland China, unless there exists a tax treaty between China and the relevant jurisdictions in which such non-PRC enterprise shareholders reside, in which case the relevant tax may be reduced or exempted pursuant to the tax treaty. However, pursuant to the Implementation Rules on the Enterprise Income Tax of the PRC (《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 withholding tax rate of 10% will be applicable to any dividend payable by foreign-invested enterprises to their non-PRC enterprise investors. In addition, pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006 and applicable in Hong Kong to income derived in any year of assessment commencing on or after April 1, 2007 and in mainland China to any year commencing on or after January 1, 2007, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more of equity interest in each such PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% equity interest in that subsidiary. According to the Notice of the State Administration of Taxation, or SAT on issues regarding the Administration of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated on 20 February 2009, recipients of dividends paid by PRC enterprises must satisfy certain requirements in order to obtain a preferential income tax rate pursuant to a tax treaty. One such requirement is that the taxpayer must be the “beneficiary owner” of relevant dividends. In order for a corporate recipient of dividends paid by a PRC enterprise to enjoy preferential tax treatment pursuant to a tax treaty, such recipient must be the direct owner of a certain proportion of the share capital of the PRC enterprise at all times during the 12 months preceding its receipt of the dividends. In addition, the Notice on How to Understand and Recognize the “Beneficiary Owner” in Tax Treaties (《國家稅務總局關於如何理解和認定稅收協

定中「受益所有人」的通知) (“Notice 601”), promulgated by SAT on 27 October 2009, narrowed the scope of “beneficiary owners” to individuals, enterprises or other organizations who “normally engage in substantive operations”, and introduced various factors to adversely impact the recognition of such “beneficiary owners”. On August 24, 2009, SAT issued the Notice Regarding the Publishing of the Administrative Measures for Non-residents to Enjoy the Treatment Under Taxation Treaties (Trial) (《關於印發〈非居民享受稅收協定待遇管理辦法(試行)的通知〉》), effective on October 1, 2009, and its supplemental regulation promulgated and effective on June 21, 2010, which provide that prior approvals from the relevant local tax authorities are required before a non-resident taxpayer may enjoy any benefits under the relevant taxation treaties.

According to the Notice on the Prepayment of Enterprise Income Tax of the Real Estate Development Enterprises (《關於房地產開發企業所得稅預繳問題的通知》) issued by the SAT on April 11, 2008 and effective on January 1, 2008 and as amended on January 4, 2011, tax prepayments in respect of income generated from pre-sales before completion of the construction of the buildings for residential, commercial use or other uses shall be paid upon the calculation of the estimated quarterly or monthly profit according to the preset estimated profit rate and it must be readjusted according to the actual profit after the completion of the construction of the buildings and the settlement of the taxable costs.

On March 6, 2009, SAT issued the Measures Dealing with Income Tax of Enterprise Engaged in Real Estate Development and Operation (《房地產開發經營業務企業所得稅處理辦法》) effective on January 1, 2008, which specifically stipulates the rules regarding tax treatment of income and deduction of cost and fees, verification of calculated tax cost and tax treatment on certain matters of the real estate development enterprise according to the EIT Law and its implementation rules.

On May 12, 2010, SAT promulgated the Notice on the Confirmation of Completion Conditions for Development of Products by Real Estate Development Enterprises (《關於房地產開發企業開發產品完工條件確認問題的通知》), which provides that a property will be deemed as completed when its delivery procedures (including move-in procedures) have commenced or when the property is in fact put in use. Real estate developers must conduct the settlement of cost in time and calculate the amount of corporate income tax for the current year.

Business Tax

Pursuant to the Interim Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例(2008年修訂)》) promulgated by the State Council on December 13, 1993 and implemented on January 1, 1994 and as amended on November 5, 2008, and the Detailed Implementation Rules of the Interim Regulation of the PRC on Business Tax (《中華人民共和國營業稅暫行條例實施細則(2011年修訂)》) issued by MOF on December 18, 2008 and as amended on October 28, 2011, services in China are subject to business tax. The business tax rate is from 3% to 20% depending on the type of services provided. Taxable services include sale of property in China. Sale of properties and other improvements on the land attract a business tax at the rate of 5% of the turnover of the selling enterprise payable to the relevant local tax authorities.

Land Appreciation Tax

Under the Provisional Regulations of the PRC on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) promulgated by the State Council on December 13, 1993 and became effective on January 1, 1994 and as amended on January 8, 2011 and its implementation rules which were promulgated by the MOF on January 27, 1995, any appreciation gain from a transfer of property is subject to land appreciation tax, or LAT. LAT must be charged at four levels of progressive rates:

30% for the appreciation amount not more than 50% of the sum of deductible items; 40% for the appreciation amount more than 50% but not more than 100% of the sum of deductible items; 50% for the appreciation amount more than 100% but not more than 200% of the sum of deductible items; and 60% for the appreciation amount more than 200% of the sum of deductible items. The related deductible items aforesaid include the following:

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

SAT issued the Notice on Improvement of the Administration of 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 require local tax authorities to modify their management system of LAT collection and operational details, to formulate and implement a sound taxpaying declaration system for LAT, to improve the methods of prepayment of LAT.

On March 2, 2006, MOF and SAT issued the Notice on Several Matters on Land Appreciation Tax (《關於土地增值稅若干問題的通知》) to clarify the relevant issues regarding LAT as follows:

- The notice clarifies the application of LAT exemption on sales of ordinary residential properties built by real estate developer and transfer of ordinary residential properties by individuals.
- The notice also provides that, where any developer develops ordinary residential properties as well as commercial properties, the land appreciation amount must be separately calculated and verified.
- As to the advance collection and settlement of LAT, the notice requires all local LAT collection departments to design their LAT prepayment rate in a reasonable manner, and to adjust it on a timely basis according to the appreciation of the property, the local market development and the specific property categories, such as ordinary residential properties, non-ordinary residential properties and commercial properties. The notice also require that LAT settlement be conducted upon the completion of a property project in a timely manner, and return the overcharge and demand the payment of the shortage;
- As to any LAT that has not been prepaid within the advance collection period, the overdue fines must be imposed and collected as of the day following the expiration of the prescribed advance collection period according to the PRC law on the Administration of Tax Collection and its implementation rules; and
- As to any property has received its certificate of completion, and the saleable GFA of the project that has been transferred constitutes more than 85% of the total saleable GFA, the tax authorities may require the relevant taxpayer to settle LAT on the transferred

properties in proportion to the income generated from, and items of deduction relating to, the transferred properties, with the specific LAT settlement procedures to be provided by local tax authorities at provincial-level governments.

On December 28, 2006, SAT issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (《關於房地產開發企業土地增值稅清算管理有關問題的通知》), which came into effect on February 1, 2007. Pursuant to the notice, a real estate developer must settle the LAT payment in full with the relevant tax authorities at the applicable LAT rates with respect to its property projects that have come to meet the LAT settlement criteria. For projects developed in stages, LAT must also be settled in stages. LAT must be settled if (i) the property project has been completed and fully sold; or (ii) the property developer has transferred the whole incomplete property project to another party; or (iii) the underlying land use rights with respect to a property project has been transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if any one of the following criteria is met: (i) for completed property projects, the sold GFA represents more than 85% of total saleable GFA or, if such proportion is less than 85%, the remaining saleable GFA is subject to leasing arrangements or is used by the developer; (ii) the property project has not been completely sold for more than three years after obtaining the pre-sale permit or the certificate of completion; (iii) the developer is applying for cancellation of its tax registration without having settled the relevant LAT; and (iv) other situations stipulated by the local provincial tax authorities.

The notice also provides that, if a property developer has committed any of the following acts, the tax authorities are required to levy and collect LAT at a rate no lower than the LAT pre-payment rate of enterprises with a similar development scale and income level in the locality: (i) failure to maintain its accounting books required by the laws and regulations; (ii) destruction of its accounting books without authorization or failure to provide its tax information; (iii) its accounting books are not in proper order, with its supporting income and cost vouchers damaged and incomplete, so as to make it difficult to determine the sales revenue or the proper amount of deductible items; (iv) failure to complete the LAT settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; or (v) the basis for tax calculation as submitted is obviously lower than supportable. Local tax authorities at the provincial level may formulate their implementation rules according to the notice and local circumstances.

On May 12, 2009, SAT issued the Administrative Rules for the Settlement of Land Appreciation Tax (《土地增值稅清算管理規程》), which became effective on June 1, 2009. The rules reiterate the LAT settlement requirements, and further stipulate procedures for the examination and verification with respect to the LAT settlement to be followed by the tax authorities.

On May 19, 2010, SAT promulgated the Notice on Issues Regarding Land Appreciation Tax Settlement (《關於土地增值稅清算有關問題的通知》), which provides further clarifications and guidelines on LAT settlement, revenue recognition, deductible expenses, timing of assessment and other related issues.

On May 25, 2010, SAT issued the Notice on Strengthening the Collection of Land Appreciation Tax (《關於加強土地增值稅徵管工作的通知》), which provides for a minimum LAT prepayment rate at 2% for provinces in eastern China region, 1.5% for provinces in the central and northeastern China regions, and 1% for provinces in the western China region. The notice also delegate to the local tax authorities to determine the applicable LAT prepayment rates based on the types of the properties in their respective regions.

In accordance with the Notice of the State Administration of Taxation on Further Improving the Collection of Land Value-added Taxes (《國家稅務總局關於進一步做好土地增值稅徵管工作的通知》) issued by the State Administration of Taxation on June 20, 2013, efforts shall be made on the settlement of land value-added tax. The key area such as settlement shall be properly done in 2013. Any items that were left behind over the past few years but have not yet been settled shall be cleared up comprehensively. Enterprises are urged to carry out settlement on their own within the given time. Those enterprises that refuse to carry out settlement shall be dealt with in a serious manner. The assessment and collection regulations shall be strictly implemented and the scope of assessment and collection shall not be expanded without authorization. It is firmly stated that no assessment and collection shall be made for those enterprises that do not meet the conditions of assessment and collection. For those enterprises that meet the conditions and need for assessment, the assessment and collection rate shall be determined strictly according to the actual situation and no uniform approach shall be adopted in this regard.

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》) promulgated by the State Council on July 7, 1997 and implemented on October 1, 1997, a deed tax is chargeable to transferees of land use rights and/or property ownership within the territory of China. The rate of deed tax ranges from 3% to 5% to be determined by the governments at the provincial level and reported to MOF and SAT for record.

Urban Land Use Tax

Pursuant to the Provisional Regulations of the People's Republic of China Governing Land Use Tax in Urban Areas (《中華人民共和國城鎮土地使用稅暫行條例》) promulgated by the State Council on September 27, 1988, amended on December 31, 2006 and January 8, 2011, the land use tax in respect of urban land is levied on the units (including FIREEs) and individuals using the land within cities, counties, administrative towns, industries and mining areas. The annual tax on each sq.m. of urban land is between RMB0.6 and RMB30 in terms of the location of lands and is to be collected according to the tax rate determined by the local tax authorities.

Building Tax

Under the Interim Regulations of the People's Republic of China on Property Tax (《中華人民共和國房產稅暫行條例》) promulgated by the State Council on September 15, 1986, implemented on October 1, 1986, and amended on January 8, 2011, property tax is levied at 1.2% calculated on the basis of the residual value of a property and at 12% calculated on the basis of the rental income.

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》) promulgated by the State Council on August 6, 1988, implemented on October 1, 1988, and amended on January 8, 2011, for property transfer instruments, including those relating to property ownership transfers, a stamp duty is levied at 0.05% of the transfer price. For permits and certificates relating to rights, including property ownership certificates and land use rights certificates, a stamp duty is levied at RMB5 per item.

Municipal Maintenance Tax and Education Surcharge

On October 18, 2010, the State Council released a circular entitled “Notice Issued by The State Council to Unify the Collection of Municipal Maintenance Tax and Education Surcharges on Domestic and 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費附加制度的通知》) to resume the collection of surtaxes from foreign invested enterprises and foreign enterprises, effective from December 1, 2010. Similar to the rate applicable to the domestic enterprises, the applicable municipal maintenance tax rate for foreign invested enterprises and foreign enterprises is 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town; the unified applicable education surcharge rate for foreign invested enterprises and foreign enterprises is 3%.

Environmental Protection

The laws and regulations governing the environmental protection for real estate developments in China include the PRC Environmental Protection Law (《中華人民共和國環境保護法》), the PRC Prevention and Control of Noise Pollution Law (《中華人民共和國環境噪聲污染防治法》), the PRC Environmental Impact Assessment Law (《中華人民共和國環境影響評價法》) and the Administrative Regulations on Environmental Protection for Development Projects (《建設項目環境保護管理條例》). Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant authorities will grant approval for the commencement of construction of the real estate development. In addition, upon completion of the real estate development, the relevant environmental regulatory authorities will also inspect the property project to ensure compliance with the applicable environmental protection standards and regulations before the property project may be delivered to the purchasers.

Foreign Exchange Controls

Under the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated in 1996 and revised in 1997 and as amended in 2008 and various regulations issued by SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments and the payment interest and dividend. The foreign currency payments received under current account may be retained pursuant to the relevant regulations. Payments of current-account items may be remitted in foreign currencies without prior approval from the relevant SAFE authorities by complying with certain procedural requirements. The foreign currency receipts and remittances under current account should have a genuine and legitimate basis, and financial institutions processing such transactions must verify the authenticity of the relevant transaction documents and their consistency with the foreign currency receipts or remittances. However, to keep or convert any foreign currency payment under capital account requires pre-approval from the relevant SAFE authorities, unless specifically exempted under applicable regulations. If a regulatory pre-approval is not specifically required, payment of capital-account items may be remitted in foreign currency directly to financial institutions, provided that valid documentation is presented. Foreign exchange transactions involving foreign direct investment, foreign debts and outbound investment in securities and derivatives are subject to limitations and require approvals from the relevant SAFE authorities.

In October 2005, SAFE issued a Notice on Issues Relating to Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管

理有關問題的通知》(“Circular 75”). According to Circular 75, a special purpose company refers to an offshore company established or indirect controlled by PRC residents for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprises. Prior to establishing or assuming control of a special purpose company overseas, each RPC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. The notice applies retroactively. These PRC residents must be also amend the registration with the relevant SAFE branch in the following circumstances: (i) the PRC residents have complete the injection of equity investment or assets of a domestic company into the special purpose company; (ii) the overseas funding of the special purpose company has been complete; (iii) there is a material change in the capital of the special purpose company. Under Circular 75 and relevant rules and regulations, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the violator, including restrictions on the payment of dividends and other distributions to its offshore parent company, and may also subject the violators penalties under the PRC foreign exchange administration regulations.

The Notice on Regulating Issues Relevant to Administration of Foreign Exchange in Real Estate Market (《關於規範房地產市場外匯管理有關問題的通知》) jointly issued by SAFE and MOHURD on September 1, 2006, provided: (i) where a FIREE fails to pay registered capital in full or to acquire a land use rights certificate or to make its capital funding for a development project amounting to 35% of the total investment to the project, the SAFE authorities will not handle its foreign debt registration or approve its settlement of foreign exchange funds; (ii) where a foreign institution or individual fails to pay the transfer price in a lump sum with its/his own fund, the SAFE authorities will not process the registration of foreign exchange proceeds from transfer of equities; (iii) the domestic and foreign investors of a FIREE may not enter into an agreement or undertaking that promises a fixed return in any form to any party, or the SAFE authorities will not process the foreign exchange registration or registration modification for the FIREE, and (iv) the funds in the foreign exchange account in the name of a foreign investor in a domestic bank may not be used for the property development or operation of the FIREE.

DIRECTORS AND MANAGEMENT

Board of Directors and Senior Management

The board is responsible and has general powers for the management and conduct of the business of our Company. The table below shows certain information in respect of members of the board.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Dr. Wang Shih Chang, George	79	Chairman and Executive Director
Wong Sai Chung	63	Managing Director and Executive Director
Xu Li Chang	73	Executive Director
Kwan Kai Cheong	63	Non-executive Director
Warren Talbot Beckwith	73	Independent Non-executive Director
Luk Koon Hoo	61	Independent Non-executive Director
Garry Alides Willinge	63	Independent Non-executive Director
Cheng Chaun Kwan, Michael	82	Independent Non-executive Director
Wu Zhi Gao	68	Independent Non-executive Director

Executive Directors

Dr. Wang Shih Chang, George

Dr. Wang is the chairman of the board and has been with our Group since 1992. He is the chairman of the nomination committee and a member of the remuneration committee of our Company. Dr. Wang is jointly responsible for the formulation of the overall corporate direction and business strategies for our Group with the managing director. Dr. Wang has extensive experience in property development and management in the PRC. Prior to joining our Group, Dr. Wang served as a vice president of various companies owned by or associated with Bechtel Group, Inc. from 1962 to 1984 and Fluor Corporation from 1984 to 1986. Bechtel and Fluor are construction and project management companies in the United States. Dr. Wang has many years of experience in the operation and management of global conglomerates. He obtained a Master Degree in Civil Engineering and Nuclear Engineering from the University of Michigan and a Ph.D. Degree in Engineering from the University of California, Los Angeles. He is the brother of Mr. Wong Sai Chung, the managing director of our Company. Dr. Wang also serves as a director of U.S. Concord (Holding) Limited and Pacific Concord Holding Limited (“PCH”) (de-listed).

Wong Sai Chung (汪世忠)

Mr. Wong is the managing director of our Company, and has been with our Group since 1992. Mr. Wong is jointly responsible for the formulation of the overall corporate direction and business strategies for our Group with the chairman, and has overall responsibility for our Group’s policy and management. Mr. Wong has over 20 years of experience in property development and management in the PRC, and has extensive experience in identifying and acquiring precious sizable lands and developing the land into highly marketable properties in top-tier cities in the PRC. Throughout the years, Mr. Wong has established strong and solid connections and contacts in the property industry in the PRC. Mr. Wong founded the PCH Group in March 1982 and has served as the chairman of PCH Group since its establishment. He is the brother of Dr. Wang Shih Chang, George, the chairman of the board. Mr. Wong also serves as a director of U.S. Concord (Holding) Limited and PCH (de-listed). In 1996, he was appointed as the executive director of Concord Land Development Company Limited (de-listed).

Xu Li Chang (徐禮昌)

Mr. Xu is an executive director of our Company. Mr. Xu has been responsible for project management since joining our Group in September 1998. He pursued his studies at the University of Chongqing (重慶大學) (formerly The Chongqing Institute of Civil Engineering and Architecture) (重慶建築工程學院) and qualified as a senior engineer in the PRC. Mr. Xu was appointed the officer-in-charge of the Neijiang City Municipal Foreign Economic and Technological Co-operation Office in the PRC in 1987. Mr. Xu also worked as the vice general manager at a well-known property development company in 1997 and was responsible for the overall management of the construction projects of that company.

Non-executive Director

Kwan Kai Cheong (關啟昌)

Mr. Kwan is a non-executive director of our Company. He has joined our Group for more than ten years and has been a non-executive director of our Company since 2007. Mr. Kwan served in various positions with Merrill Lynch & Co. Inc. from 1982 to 1993, including as president of the Asia-Pacific Region. Mr. Kwan is currently the president of Morrison & Company Limited, a business consultancy firm; an independent non-executive director of Hutchison Harbour Ring Limited, SPG Land (Holdings) Limited, Goldpoly New Energy Holdings Limited and Win Hanverky Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange. He is an independent non-executive director of Henderson Sunlight Asset Management Limited, which manages the Sunlight Real Estate Investment Trust, and the units are listed on the Main Board of the Stock Exchange. He is also a non-executive director of Galaxy Resources Limited which is listed on the Australian Securities Exchange.

Mr. Kwan holds a Bachelor Degree of Accountancy (Honors) from the University of Singapore. He is a member of the Institute of Chartered Accountants in Australia and a fellow of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Directors. Mr. Kwan completed the Stanford Executive Program in 1992.

Independent Non-executive Directors

Warren Talbot Beckwith

Mr. Beckwith was appointed as an independent non-executive director of our Company on February 1, 2007. He is the chairman of the audit committee and a member of the nomination committee of our Company. Mr. Beckwith has business management experience in Australia, London and Hong Kong in various industries, including mining, petroleum, property and technology development. Mr. Beckwith is a fellow of the Institute of Chartered Accountants in Australia, the Hong Kong Institute of Certified Public Accountants, the Australian Institute of Company Directors and the Taxation Institute of Australia. In the past, Mr. Beckwith held directorships and executive positions in public companies listed on stock exchanges in Australia and Hong Kong. Mr. Beckwith formerly served as an independent non-executive director on each of the boards of the then listed Pacific Concord Holding Limited and Concord Land Development Company Limited, both property development companies. Mr. Beckwith was a director and shareholder of Avon Real Estate Pty Ltd., a property development company, and he was also a director of Sentinel Investments Pty Ltd, an Australian-based property development company. He is currently the chairman of Westralian Group Pty Ltd., a Western Australian investment company

and corporate financial advisor, a non-executive director of Brockman Mining Limited, a mining company listed in Hong Kong and Australia and the non-executive chairman of Gondwana Resources Limited, an Australian-listed mining company.

Luk Koon Hoo (陸觀豪)

Mr. Luk was appointed as an independent non-executive director of our Company on February 1, 2007. He is the member of the audit committee and the remuneration committee of our Company. Mr. Luk is a retired banker, and served Hang Seng Bank Limited from 1975 as a trainee officer and as a director and deputy chief executive in 1994. He was re-designated as managing director in 1996 and retired from Hang Seng Bank Limited in May 2005. Mr. Luk is currently an independent non-executive director of Computime Group Limited, Hung Hing Printing Group Limited and i-Cable Communications Limited, shares of which are listed on the Main Board of the Hong Kong Stock Exchange. He is also an independent non-executive director of Wheelock Properties Limited and Octopus Holdings Limited, and a non-executive director of Wharf T & T Limited and AXA General Insurance Hong Kong Limited. In public duties, Mr. Luk serves as a council member and treasurer of the Chinese University of Hong Kong, a member of Town Planning Board, a member of Witness Protection Review Board Panel and a non-official member of the Operations Review Committee of ICAC. Mr. Luk was born and educated in Hong Kong. He holds a Bachelor of Social Sciences Degree in Statistics from the University of Hong Kong and a Master Degree in Business Administration from the Chinese University of Hong Kong. He is a fellow of the Hong Kong Institute of Bankers and the Hong Kong Institute of Directors. Mr. Luk is a Non-official Justice of the Peace.

Garry Alides Willinge

Mr. Willinge was appointed as an independent non-executive director of our Company on February 1, 2007. He is a member of the audit committee and the chairman of the remuneration committee of our Company. Mr. Willinge is a fellow of the Australian Institute of Company Directors and the Hong Kong Institute of Directors. He graduated with a Bachelor Degree in Science from the University of Melbourne and then attained a Graduate Diploma in Applied Finance and Investment from the Securities Institute Education in Australia (now known as “The Securities Institute of Australia”) in 1995. Mr. Willinge had served as director, Global Services, of IBM China/Hong Kong Limited until January 2005. He previously held management positions in a number of IBM Asia Pacific and European business units, including director of New Business Ventures of the Asia Pacific, where he was responsible for forging alliances and joint ventures across Asia in order to expand IBM’s services business portfolio. Mr. Willinge was a director, Information Technology, for the Sydney Olympic Games 2000. He also serves as an Adjunct Professor of Business Studies at Curtin University of Technology in Australia. He was assigned to the West Australian Premier in 1990, where he led the Office of Public Sector Management, which focused on leading public sector reform and developing CEO leadership within the sector. In Hong Kong, Mr. Willinge serves as a member of the General Management Committee of the Hong Kong Management Association and an independent non-executive director of JF Household Furnishings Limited, shares of which are listed on the Main Board of the Hong Kong Stock Exchange.

Cheng Chaun Kwan, Michael (鄭燦焜)

Mr. Cheng was appointed as an independent non-executive director of our Company on February 1, 2007. He is a member of the audit committee and the nomination committee of our Company. Mr. Cheng is a retired property investment and development, corporate finance and accounting consultant. Mr. Cheng was the executive director of Sino Land Company Ltd., a

company of which shares are listed on the Main Board of the Hong Kong Stock Exchange in 1987 and retired as director at the end of 1998. Prior to that, Mr. Cheng was the executive director of Henderson Investment Ltd., (formerly Wing Tai Development Co. Ltd.), a company of which shares are also listed on the Main Board of the Stock Exchange, for the period from 1981 to 1987. Mr. Cheng was the chief executive responsible for the listing of Sino Hotels (Holdings) Limited in 1995 on the Main Board of the Hong Kong Stock Exchange. Mr. Cheng is a Fellow of the Association of Chartered Certified Accountants in the United Kingdom.

Wu Zhi Gao (吳志高)

Mr. Wu was appointed as an independent non-executive director of our Company on February 1, 2007. He is a member of the audit committee of our Company. Mr. Wu is a retired lecturer and property development consultant. He holds a Bachelor Degree in Mathematics from Fudan University, Shanghai. Prior to joining our Group, he held senior academic positions at the Huadong University (華東師範大學) and Shanghai Education Institute (上海教育學院) and focused on teaching marketing, which included researches on sales and marketing of property development projects. Between 1998 to 2004, Mr. Wu served as the vice principal at the Huadong University. During that period, he also assisted in the development of a residential property project for the Huadong University. For the period from 1996 to 1997, Mr. Wu also served as a vice president for Shanghai Pingan Xinlun Property Development Co. Ltd. (上海平安欣倫物業發展有限公司), a company providing construction, leasing and sales of office premises, as well as property management services, to the Shanghai Education Institute.

The executive directors of our Company are also the senior management of our Group.

Board Committees

The board has established, and is supported by, the following board committees.

Audit Committee

The audit committee consists of five members: Mr. Warren Talbot Beckwith as chairman, Mr. Cheng Chaun Kwan, Michael, Mr. Luk Koon Hoo, Mr. Garry Alides Willinge and Mr. Wu Zhi Gao.

The primary duties of the audit committee are, among other things, to review and supervise our Group's financial reporting process and internal control systems, to review our Group's financial information and to review the relationship with the external auditor of our Company.

Remuneration Committee

The remuneration committee consists of three members: Mr. Garry Alides Willinge as chairman, Dr. Wang Shih Chang, George and Mr. Luk Koon Hoo.

The primary duties of the remuneration committee are, among other things, to evaluate and make recommendations to the board regarding the compensation of the directors. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of, the senior management of our Company.

Nomination Committee

The nomination committee consists of three members: Dr. Wang Shih Chang, George as chairman, Mr. Warren Talbot Beckwith and Mr. Cheng Chaun Kwan, Michael.

The primary duties of the nomination committee are, among other things, to assist the board in reviewing the structure, size and composition of the board, determining the policy for the nomination of directors and making recommendations on the appointment or re-appointment of directors and succession planning for directors.

Interests of the Directors and Senior Management in the Shares of the Company

Save as disclosed in the section entitled “Principal Shareholders” below, as of June 30, 2013, none of the directors or senior management had any interests or short positions in any shares of the Company.

Share Option Scheme

On January 17, 2011 and July 3, 2013, we granted options to subscribe for 20,000,000 and 36,000,000 ordinary shares, respectively, to certain eligible participants under our share option scheme adopted by us on February 2, 2007.

PRINCIPAL SHAREHOLDERS

As of June 30, 2013, the following persons are directly or indirectly interested in 10% or more of the issued shares:

<u>Shareholder</u>	<u>Number of Shares</u>	<u>Percentage of Shares</u>
Hillwealth Holdings Limited ⁽¹⁾	1,556,611,570 ⁽²⁾	86.04%

(1) *The entire issued share capital of Hillwealth Holdings Limited is owned by Mr. Wong, our managing director.*

(2) *This includes deemed interests in 206,611,570 shares to be issued upon exercise of the conversion rights under the convertible notes issued by the Company to Hillwealth Holdings Limited.*

RELATED PARTY TRANSACTIONS

We have entered into transactions with related parties. We believe that each of these transactions was entered into in the ordinary and usual course of business of our Group, on normal commercial terms that are fair and reasonable and in the interest of our Company and shareholders as a whole. For further information, see notes 23, 32 and 33 to the audited consolidated financial statements of the year ended December 31, 2011, notes 23, 26, 33 and 34 to the audited consolidated financial statements of the year ended December 31, 2012 and notes 14 and 19 to the unaudited condensed consolidated financial statements of the six months ended June 30, 2013, respectively, included in this offering circular.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following is a summary of our current material indebtedness and their respective terms as of the date of this offering circular. The following summary does not purport to be complete.

Our indebtedness consists of project and other bank loans, trust financing and other borrowings, senior notes, convertible notes, shareholder loans and amount due to a shareholder.

Bank Loan Agreements

As of June 30, 2013, certain of our PRC subsidiaries have entered into loan agreements with various banks, including Chiyu Bank, Wing Hang Bank, Bank of East Asia, Industrial Bank and Minsheng Bank. These loans are primarily project loans to finance the construction of our projects (the “project loans”) and have terms ranging from 12 months to 24 months.

Interest

The principal amounts outstanding under the bank loan agreements generally bear interest at floating rates calculated by reference to the relevant banks’ benchmark interest rate per annum. Interest payments are typically payable every three months. As of June 30, 2013, the effective interest rate on the aggregate outstanding amount of our project loans at variable rate borrowings were 4.77% to 8.40% per annum.

Covenants

Under these bank loan agreements, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the lenders’ prior consent:

- create encumbrances on any part of their properties or assets or deal with their assets;
- make loans, advance moneys, grant credit to, or grant guarantees to any third parties, except in the ordinary course of its business;
- borrow or raise money except in the ordinary course of its business;
- declare, make or pay any dividend or distribution;
- make any major changes to their corporate structures, such as mergers and acquisitions and reorganization or change the company’s status, such as dissolution, liquidation and winding-up;
- alter the nature of their business operations, whether by disposal, acquisition or otherwise;
- reduce, repay or redeem its authorized and/or issued share capital; and
- dispose of the whole or any substantial part of its business or its assets.

Ranking of Obligations

Pursuant to the respective bank loan agreements, some of our PRC subsidiaries that are borrowers have agreed that such bank loans shall rank at least pari passu with all their other present and future unsecured and unsubordinated obligations.

Events of Default

The bank loan agreements contain certain customary events of default, including insolvency and breaches of the terms of the loan agreements. 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, which may or may not be borrowers under these bank loans, entered into guarantee agreements with the lending banks, pursuant to which they have guaranteed certain liabilities of the borrowers under these bank loan agreements. As of June 30, 2013, HK\$992.3 million of the bank loans were secured by properties and other assets of our PRC subsidiaries and charged accounts of our offshore subsidiaries.

Trust Financing and Other Borrowings

As of June 30, 2013, we had current and non-current borrowings from trust financing and other arrangements of approximately HK\$2,397.8 million. Our trust financings have committed yield rates and trust periods. These borrowings are secured by certain properties of our Group. In addition, our subsidiary, Sharp Sword Limited, has pledged its 100% equity interest in Chongqing Peak No. 1 Real Estate Co., Ltd. to Zhongcheng Trust Co., Ltd. in connection with certain of these borrowings. Our trust financing arrangements are made with major trust financing companies, which are independent third parties. As of June 30, 2013, the weighted average interest rates on the outstanding amount of our fixed rate trust financing and other arrangements is 13.36% per annum. Notwithstanding its higher cost of borrowing, we chose to obtain trust loans as an alternative source of funding for some of our projects to take advantage of their flexible terms and security structures and favorable funding and repayment options as compared to those offered by commercial bank loans.

2007 Notes

On May 4, 2007, we issued US\$300.0 million of senior notes. The senior notes are listed on the SGX-ST. The senior notes are guaranteed by the Company's subsidiaries other than those organized under the laws of the PRC. On December 4, 2010, the Company repurchased US\$197,395,000 in aggregate principal amount of the senior notes and amendments were made to the indenture governing the senior notes, including the elimination of a majority of the restrictive covenants from the indenture governing those notes.

Interest

The interest rate of the senior notes is fixed at 9.125% per annum.

Maturity and Prepayment

The senior notes will mature after seven years from the issue date. The Company may redeem the senior notes, in whole or in part, at various price depending on the redemption date.

Events of Default

In the event of default, including non-payment or other violations of the indenture or the senior notes, we may be required by the trustee or the noteholders of at least 25% in aggregate principal amount of the senior notes or automatically be required to pay the principal and accrued interest immediately, depending on the nature of the event of default.

China Development Bank Corporation Loan Facility

On October 22, 2010, the Company entered into a facility agreement with China Development Bank Corporation, Hong Kong Branch (“CDB”) (the “CDB Facility Agreement”) as lender in relation to a US\$300 million term loan facility (“CDB Facility”).

Interest

The interest rate of this loan facility per annum is the aggregate of the applicable margin of 4.5% per annum and LIBOR. The Company may select the interest period to be either three or six months.

Maturity and Prepayment

The loan facility is repayable in three equal annual installments. We have repaid the first two installments and the third installment of US\$137.9 million is due on December 13, 2013. The Company has the right to prepay all or part of the loan, subject to not less than five business days’ notice to CDB. The Company needs to pay a certain break cost if the prepayment is not made on the last day of the relevant interest period.

Covenants

Pursuant to the CDB Facility Agreement, the Company and each of its non-PRC subsidiaries, which are the guarantors of this loan, agreed, among other things, not to:

- create any security over any of its assets;
- dispose of any of its assets or receivables on recourse terms;
- enter into any merger, demerger, consolidation, amalgamation or any other type of corporate reconstruction unless the Company or the subsidiary involved is the surviving entity;
- change the nature and scope of the business of the Company, its subsidiaries which are members of the Group at the time of the CDB Facility Agreement or the guarantors;
- declare any dividend unless the dividend does not exceed 25% of the profit attributable to the equity holders of the Company in the relevant financial year;
- make investment in any third party outside the Group; and

- provide any loan to, or guarantee or indemnification of, any person outside the Group in an aggregate amount exceeding US\$5.0 million.

The Company also agreed to:

- maintain 100% of the direct or indirect legal and beneficial equity interest in, and management control of, each of its subsidiaries existing as of the date of the CDB Facility Agreement.
- maintain a consolidated tangible net worth of not less than HK\$20 billion;
- maintain the ratio of consolidated total net debt to consolidated tangible net worth at not more than 0.6 to 1;
- maintain the ratio of consolidated total net debt to consolidated EBITDA at not more than 9 to 1;
- maintain the fixed charge coverage ratio at not less than 1.3 to 1;
- maintain the ratio of consolidated total onshore debt to total assets at not more than 0.35 to 1; and
- supply annual audited and semi-annual unaudited financial statements to CDB.

Ranking of Obligations

Pursuant to the CDB Facility Agreement, the Company agreed to ensure that the loan facility rank at least pari passu with all its other present and future unsecured and unsubordinated indebtedness.

2012 Convertible Note

On August 14, 2012, we issued a convertible note of HK\$500.0 million to Hillwealth Holdings Limited, a company wholly owned by Mr. Wong, our managing director. The note and all amounts payable under the note are subordinated to the facility under the CBD Facility Agreement. The net proceeds from this issue of approximately HK\$500.0 million is being used for the general working capital of our Group.

Interest

The interest rate of the note is fixed at 5% per annum.

Conversion

The conversion price is at HK\$2.42 per share. The noteholder has the right to convert the whole or part of the principal amount of the note into shares at any time after the full repayment of the loan principal and all outstanding accrued interest under the CDB Facility Agreement or the date 36 months from the first date a loan was made under the CBD Facility Agreement (whichever is earlier) up to the maturity date of the note.

Transferability

Apart from the transfer of the convertible note to Mr. Wong or any of his associates, any transfer of the convertible note is subject to the prior written consent of the Company. If the convertible note is to be transferred (in whole or in part) to a person who is a shareholder of the Company or a member of the Group, such person must enter into a subordination deed to subordinate all or part of the convertible note to be transferred and all amounts payable thereunder (including interest payments) to the CDB Facility as a precondition to such transfer.

Maturity and Repayment

The note will mature after six years from the issue date.

Shareholder Loans and Advances

We entered into three separate agreements with Mr. Wong on December 31, 2011, June 30, 2012 and December 31, 2012 whereby loans of HK\$350.0 million, HK\$500.0 million and HK\$350.0 million, respectively, were provided to us by Mr. Wong. These loans are interest-free, unsecured and repayable on December 31, 2013. On June 28, 2013, we entered into a supplemental loan agreement with Mr. Wong under which these loans are repayable after eighteen months from December 31, 2012. In addition to shareholder loans, from time to time we have received advances from Mr. Wong. As of June 30, 2013, the amount due to Mr. Wong under these advances is HK\$251.3 million which is repayable upon demand.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to China Properties Group Limited, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company that Guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such Guarantee is referred to as a “Subsidiary Guarantee.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees and the Security Documents. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees and the Security Documents. 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 55th Floor, One Island East, 18 Westlands Road, Island East, Hong Kong.

Brief Description of the Notes

The Notes will be:

- 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;
- *pari passu* with the 2007 Notes and the US\$300.0 Million Facility;
- at least *pari passu* in right of payment with all unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption “— The Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral”;
- effectively subordinated to secured obligations of the Company and the Subsidiary Guarantors (other than Permitted *Pari Passu* Secured Indebtedness), to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the PRC Subsidiaries.

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

- be entitled to a first priority Lien on the Collateral (subject to any Permitted Liens) shared on a *pari passu* basis with the holders of the 2007 Notes, the lender under the US\$300.0 Million Facility and any other creditors with respect to Permitted Pari Passu Secured Indebtedness;
- 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); and
- rank effectively senior in right of payment to unsecured obligations of the Subsidiary Guarantor Pledgors to the extent of the Collateral charged by each Subsidiary Guarantor Pledgor securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on October 16, 2018, unless earlier redeemed pursuant to the terms thereof and the Indenture. 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 Notes” include any Additional Notes that are actually issued. The Notes will bear interest at 13.50% 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 April 16 and October 16 of each year (each an “Interest Payment Date”), commencing April 16, 2014.

Interest on the Notes will be paid to Note holders (“Holders”) of record at the close of business on April 1 or October 1 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. In addition, interest shall accrue at the rate of 1.0% per annum in excess of the applicable interest rate from the Interest Payment Date on any payment not timely made. In any case in which the date of the payment of principal of, premium or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Trustee, then payment of principal, premium or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

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 the corporate trust administration office of the Trustee, currently located at 55th Floor, One Island East, 18 Westlands Road, Island East, Hong Kong, and the Notes may be presented for registration of transfer or

exchange at such office or agency. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants on the Business Day following payment thereof.

The Subsidiary Guarantees

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 Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture, and will not Guarantee the Notes.

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company's Restricted Subsidiaries other than the Restricted Subsidiaries organized under the laws of the PRC (together, the "PRC Subsidiaries"). All of the initial Subsidiary Guarantors are holding companies or special purpose companies that do not have significant operations.

None of the existing PRC Subsidiaries will at any time in the future provide a Subsidiary Guarantee. Moreover, no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries organized under the laws of the PRC may incur, the amount of such additional Indebtedness could be substantial.

The PRC Subsidiaries, which hold substantially all of the Company's assets and operations, are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due under the Notes or the Subsidiary Guarantees. Any right that the Company or a Subsidiary Guarantor has to receive the assets of any PRC Subsidiary upon the bankruptcy, liquidation or reorganization of such PRC Subsidiary (and the consequent right of holders of the Notes to receive proceeds from the sale of such assets) will be effectively subordinated to the claims of such PRC Subsidiary's creditors, including holders of its debt and its trade creditors.

As of June 30, 2013,

- the Company and its consolidated subsidiaries had total consolidated indebtedness (including short term borrowings, long term borrowings and fixed rate senior notes, but excluding shareholder loans, amount due to a shareholder and convertible bonds) of approximately HK\$5,263.0 million;
- the Company and the Subsidiary Guarantors had indebtedness of approximately HK\$1,872.9 million; and
- the PRC Subsidiaries had total borrowings (excluding intra-group balances) of approximately HK\$3,390.1 million.

In addition, as of June 30, 2013, the Company and its consolidated subsidiaries had total contingent liabilities and other commitments of approximately HK\$2,578.7 million, excluding legal claims with an aggregate amount of approximately HK\$378.0 million in connection with disputes under certain construction contracts in the properties development operation during the normal course of business.

The Subsidiary Guarantee of each Subsidiary Guarantor will be:

- a general obligation of such Subsidiary Guarantor;
- senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- at least *pari passu* in right of payment with all unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC), as soon as practicable and in any event within 30 days after such Person becomes a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes on a senior basis. Such Subsidiary Guarantor is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture will be a “Subsidiary Guarantor.”

In addition, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral” and “— Permitted *Pari Passu* Secured Indebtedness,” the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor will be secured by the Collateral, pledged by it as described below under the caption “— Security” and:

- will be entitled to a first priority Lien on the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor shared on a *pari passu* basis with the holders of the 2007 Notes, the lender under the US\$300.0 Million Facility and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, 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 Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees 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. 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 will be reinstated with respect to such payments as though such payment had not been made.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and

No assurance can be given that the preceding provision limiting the maximum amount of each Subsidiary Guarantee will be given effect. If a 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 and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral — The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees."

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance or satisfaction and discharge as described under "— Defeasance" and "— Satisfaction and Discharge";
- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary, or if such Subsidiary Guarantor otherwise ceases to be a Restricted Subsidiary, in each case in compliance with the terms of the Indenture; or
- upon the sale of a Subsidiary Guarantor 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 no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee, the Collateral Agent or the Holders until the Company has delivered to the Trustee and the Collateral Agent an Officer's Certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the terms of the Indenture.

Security

The obligations of the Company under the Notes and the Subsidiary Guarantors under the Subsidiary Guarantees will be secured on a first priority basis by pledges by the Company and the Subsidiary Guarantor Pledgors, as the case may be, of the Capital Stock of all of the initial Subsidiary Guarantors (the "Collateral") owned by the Company or the Subsidiary Guarantor Pledgors (subject to Permitted Liens and the Intercreditor Agreement) on the Original Issue Date.

The Indebtedness represented by the Notes and the Subsidiary Guarantees will constitute “Permitted Pari Passu Indebtedness” under the terms of the indenture and the security documents for the 2007 Notes, including the share pledge agreements executed by the Company and the Subsidiary Guarantor Pledgors in favor of the Collateral Agent on the original issue date of the 2007 Notes. Accordingly, upon an accession to the Intercreditor Agreement (as defined below) by the Trustee and the other parties thereto, the Holders of the Notes will have the benefit of the security interests created over the Collateral under the share pledge agreements.

The initial Subsidiary Guarantor Pledgors will be Cheergain Group Limited, China Channel Limited, Winnic Limited, Charm World International Limited, Rise Summit Management Limited and High Clear International Limited. The Capital Stock pledged by the Company and each initial Subsidiary Guarantor Pledgor will be that of the initial Subsidiary Guarantors, all of which are holding companies or special purpose companies that do not have significant operations or real property assets other than Capital Stock of the PRC Subsidiaries.

None of the Capital Stock of the PRC Subsidiaries will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future.

The Company has also agreed, for the benefit of the holders of the Notes, to pledge, or cause each Subsidiary Guarantor to pledge, the Capital Stock owned directly by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC) after the Original Issue Date, within 30 days after such Person has become a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, 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 by the holders of the Notes, the holders of the 2007 Notes, the lender under the US\$300.0 Million Facility and the holders of any other Permitted Pari Passu Secured Indebtedness. As of the date of this offering circular, the aggregate principal amount of the 2007 Notes outstanding was approximately US\$102.6 million and the aggregate amount outstanding under the US\$300.0 Million Facility was US\$137.9 million. The amount of other Indebtedness secured by the Collateral (other than with respect to Permitted Liens) was nil. Accordingly, in the event of a default on the Notes or Permitted Pari Passu Secured Indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of Permitted Pari Passu Secured Indebtedness in proportion to the outstanding amounts of each class of Permitted Pari Passu Secured Indebtedness. The proceeds realizable from the Collateral securing the Notes and the Subsidiary Guarantees (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement (as defined below)) are unlikely to be sufficient to satisfy the Company’s and each Subsidiary Guarantor Pledgor’s obligations under the Notes and the Subsidiary Guarantees, and the Collateral 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 and the Collateral — The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. 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 Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Liens for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) and any Pari Passu Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any Subsidiary Guarantor Pledgor, “Permitted Pari Passu Secured Indebtedness”); *provided that* (1) the Company or such Subsidiary Guarantor Pledgor 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 Agreement referred to below; (3) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral that are substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor Pledgor than the provisions of the Indenture and the Security Documents; and (4) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee and the Collateral Agent an Opinion of Counsel and Officer’s Certificate with respect to compliance with the conditions stated immediately above and other corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents. The Trustee or the Collateral Agent, as the case may be, will be permitted and authorized, without the consent of any Holder, to enter into any amendment to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any security or collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Neither the Trustee nor the Collateral Agent nor any of their officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so, except to the extent of any willful default or gross negligence of the Trustee or the Collateral Agent.

Intercreditor Agreement

The Company, the Subsidiary Guarantor Pledgors, Citicorp International Limited as collateral agent (the “Collateral Agent”), the 2007 Notes Trustee on behalf of the holders of the 2007 Notes and the lender under the US\$300.0 Million Facility entered into an intercreditor agreement dated October 22, 2010 (the “Intercreditor Agreement”, as supplemented from time to time). On or prior to the Original Issue Date, the Trustee on behalf of the holders of the Notes will have executed a joinder agreement to the Intercreditor Agreement to accede as a creditor to the Intercreditor Agreement. The Intercreditor Agreement will provide, among other things, (1) that the secured creditors thereunder will share equal priority and pro rata entitlement in and to the Collateral and that the Secured Liabilities shall rank *pari passu* among themselves and the Liens on the Collateral securing the Secured Liabilities shall rank *pari passu* among themselves; (2) for the conditions under which any Lien on such Collateral may be released; and (3) for the conditions under which the Collateral Agent will take enforcement actions with respect to such Collateral.

By accepting the Notes, each Holder shall be deemed to have consented to the execution and delivery of the Intercreditor Agreement, any amendments or modifications thereto, and any future intercreditor agreement required under the Indenture.

Enforcement of Security

The first priority Liens securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Collateral Agent, subject to sharing under the Intercreditor Agreement. The Collateral Agent for itself and the creditors party to the Intercreditor Agreement will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by such creditors or their respective creditor representatives to exercise remedies in accordance with the Security Documents. The Collateral Agent has agreed to act as secured party on behalf of the creditors under the Debt Documents and under the applicable Security Documents, to follow the instructions provided to it by such creditors or one or more of the creditor representatives representing such creditors under the Intercreditor Agreement and to carry out certain other duties. The Trustee will give instructions to the Collateral Agent in accordance with instructions it receives from the Holders under the Indenture.

The Intercreditor Agreement will provide that the Collateral Agent will enforce the Collateral in accordance with a written instruction by any creditor or creditor representative to do so if it does not receive any conflicting instruction, and in the case of conflicting instructions delivered by two or more creditor representatives, the Collateral Agent will only enforce the Collateral upon receiving

written instructions from a majority of the creditors. Furthermore, the Intercreditor Agreement will provide that, subject to the rights of any creditor with prior security or any preferential claim under applicable laws, the proceeds of enforcement of any Collateral under the Security Documents will be applied as follows:

- first, to the Collateral Agent to the extent necessary to reimburse the Collateral Agent for any expenses incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing its remedies under the Security Documents and preserving the Collateral and all amounts for which the Collateral Agent is entitled to indemnification under the Security Documents;
- second, pro rata, in or towards payment to the Trustee, Collateral Agent, Paying Agent, Transfer Agent, Registrar and other agents under the Indenture, the trustee and other agents under the 2007 Notes Indenture, the lender under the US\$300.0 Million Facility Agreement and any trustee or agent under any Permitted Pari Passu Secured Indebtedness for application against any fees, costs and expenses payable to them under the applicable Debt Document and any amount for which such Trustees and/or agents are entitled to indemnification under the applicable Debt Document;
- third, to the Trustee for the benefit of Holders, the trustee under the 2007 Notes Indenture for the benefit of the holders of the 2007 Notes, the lender under the US\$300.0 Million Facility Agreement and, to the extent applicable, holders of Permitted Pari Passu Secured Indebtedness (or their representative) on a pro rata basis; and
- fourth, any surplus remaining after such payments will be paid to the Company (for itself and the Subsidiary Guarantor Pledgors or whomever may be lawfully entitled thereto).

The Collateral Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification and/or security to its satisfaction. In addition, the Collateral 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 Collateral Agent's Liens on the Collateral.

Neither the Collateral Agent nor the Trustee nor any of their respective officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so. Nor will the Collateral Agent or the Trustee be responsible for (i) the right or title of any person in or to, or the value of, or sufficiency of any part of the Collateral created by the Security Documents; (ii) the priority of any Lien on the Collateral created by the Security Documents; or (iii) the existence of any other Lien affecting any asset secured under a Security Document.

The Security Documents will provide that the Company and the Subsidiary Guarantor Pledgors shall jointly and severally indemnify the Collateral Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind

imposed against the Collateral Agent arising out of the Security Documents except to the extent that any of the foregoing have resulted from the willful default or gross negligence of the Collateral Agent.

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”; and
- upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture.

Further Issues

Subject to the covenants described below, 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) 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 and the other provisions of the Indenture.

Optional Redemption

At any time and from time to time on or after October 16, 2016 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 to (but not including) the redemption date if redeemed during the twelve month period beginning on October 16 of each of the years indicated below.

<u>Period</u>	<u>Redemption Price</u>
2016	106.750%
2017	103.375%
2018	100.000%

At any time prior to October 16, 2016 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.

At any time prior to October 16, 2016 the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more Equity Offerings at a redemption price equal to 113.5% 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.

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 recognized securities exchange, in compliance with the requirements of the principal recognized securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any recognized securities exchange, on a pro rata basis, by lot or by such method as the Trustee deems 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 will agree in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's and the Subsidiary Guarantor's then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes.

On the Offer to Purchase Payment Date, the Company shall to the extent lawful: (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 (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee 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. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture governing the 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 to Purchase will set forth the provision of the Indenture pursuant to which the redemption shall occur, any other information required by applicable law to be included therein and all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

The definition of Change of Control includes a phrase relating to the sale of “all or substantially all” the assets of the Company. Although there is a limited body of case law interpreting the phrase “substantially all,” no precise definition of the phrase has been established. Accordingly, the ability of a Holder of Notes to require the Company to repurchase such Holder’s Notes as a result of a sale of less than all the assets of the Company to another person or group is uncertain and will be dependent upon particular facts and circumstances.

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 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 (collectively, “Taxes”) 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 is organized or resident for tax purposes or through which payment is made (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a “Relevant Jurisdiction”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note or the Subsidiary Guarantee, as the case may be, 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 Taxes 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 or Subsidiary Guarantee, as the case may be, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the

extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;

- (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required by statute or regulation of a Relevant Jurisdiction to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
- (b) any estate, inheritance, gift, sale, transfer, personal property or similar Taxes;
 - (c) any Taxes that are payable other than by deduction on withholding from payments under or with respect to such Note or Subsidiary Guarantee;
 - (d) 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
 - (e) any combination of Taxes referred to in the preceding clauses (a), (b), (c) and (d); or
- (2) to a Holder that is a fiduciary, partnership (or other entity treated as a partnership for tax purposes under the laws of a Relevant Jurisdiction) or person other than the sole beneficial owner of such Note or Subsidiary Guarantee to the extent that a payment under or with respect to such Note or Subsidiary Guarantee would be required under the laws of a Relevant Jurisdiction to be included for tax purposes in the income 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, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100%

of the principal amount thereof, plus accrued and unpaid interest (including any Additional Amounts), if any, to (but not including) the date fixed by the Company or the Surviving Person, as the case may be, for redemption if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) or treaties 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, rulings or treaties (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective or, in the case of an 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 or Surviving Person, on or after the date such Future Subsidiary Guarantor or Surviving Person becomes a Future Subsidiary Guarantor or Surviving Person, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts with respect to any payment due or to become due under the Notes or the Indenture, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person or a Subsidiary Guarantor; as the case may be; *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor 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, a Surviving Person or a Subsidiary Guarantor, as the case may be, by 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 may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.75 to 1.0 on or prior to the first anniversary of the Original Issue Date and 3.0 to 1.0 thereafter. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock of Restricted Subsidiaries held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
 - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee;
 - (b) any Pari Passu Subsidiary Guarantees by any 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 excluded in the proviso contained in the definition of Permitted Subsidiary Indebtedness);
 - (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided that* (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d), (ii) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must be unsecured and be expressly subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor and (iii) if the Indebtedness is owed to the Company or any Subsidiary Guarantor, such Indebtedness must be evidenced by an unsubordinated promissory note or a similar instrument under applicable law;
 - (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h) or (p) 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 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, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is made expressly *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a 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 subordinate in right of payment to the Notes or such Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such 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 and (iii) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

- (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 assets, 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 assets, property or equipment 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 permitted to be Incurred under clause (p) below and the refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 25% 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 or trade guarantees issued in the ordinary course of business to the extent that such letters of credit or trade guarantees 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) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant; or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (f) or (h) above or clauses (n), (o) or (p) below;
- (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\$30 million (or the Dollar Equivalent thereof);
- (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 million (or the Dollar Equivalent thereof);
- (p) Bank Deposit Secured Indebtedness or Cross Border Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided that* on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (p) (together with any refinancings thereof), plus (2) the aggregate

principal amount outstanding of all such Indebtedness Incurred pursuant to clause (h) above (together with any refinancings thereof), does not exceed an amount equal to 25% of Total Assets;

- (q) the issuance of Preferred Stock by any Restricted Subsidiary to the Company or to any other Restricted Subsidiary that is a direct or indirect parent company of the issuing Restricted Subsidiary, provided, however, that any issuance, sale or transfer that results in any such Preferred Stock being held by a Person other than the Company or a Restricted Subsidiary that is such a parent will be deemed to constitute an issuance of such Preferred Stock that was not permitted by this clause (q); and
 - (r) Indebtedness Incurred by the Company constituting a Subordinated Shareholder Loan.
- (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 clause (1), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness and only be required to include the amount of such Indebtedness as one of such types.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable solely in shares of the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock (including options, warrants or other rights to acquire such shares of Capital Stock) of the Company held by any Persons other than the Company or any Restricted Subsidiary or of any Restricted Subsidiary held by any Affiliate of the Company (other than a 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 (excluding any intercompany Indebtedness between or among the Company and any Subsidiary Guarantor); 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 clause (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 the first day of the semi-annual period during which the Notes are issued and ending on the last day of the Company’s most recently ended semi-annual period 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 include internal consolidated financial statements); plus
 - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date (1) 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 sum of:
 - (A) (1) the net reduction in Investments (that were made after the Original Issue Date and treated as a Restricted Payment under the Indenture in any Person other than the Company or a Restricted Subsidiary resulting from dividends, repayments of loans or advances or other transfers of Property, in each case to the Company or any Restricted Subsidiary from such Person or the

unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary (to the extent such Guarantee, when given, constituted a Restricted Payment under the Indenture) or (2) to the extent that an Investment made after the Original Issue Date (that was treated as a Restricted Payment under the Indenture) is sold or otherwise liquidated or repaid for cash, the lesser of (x) the cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, plus

- (B) the portion (proportionate to the Company's equity interest in such Unrestricted Subsidiary) of the Fair Market Value of the net assets of an Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary under the Indenture,

provided, however, that the foregoing sum shall not exceed, in the case of any Person, the amount of Investments previously made (and treated as a Restricted Payment under the Indenture) by the Company or any Restricted Subsidiary in such Person, and provided further, that no amount will be included under this clause (iv) to the extent it is already included in Consolidated Net Income as described in clause (i) of this paragraph; plus

- (v) US\$10 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 90 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 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 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 sale (other than to a Subsidiary of the Company) of, shares of 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;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the 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 options, warrants or other rights to acquire such Capital Stock); *provided that* the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;

- (5) the payment of 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 of Capital Stock deemed to occur upon the exercise of stock options to the extent such Capital Stock represents a portion of the exercise price of those stock options in an aggregate amount not to exceed US\$1.0 million (or the Dollar Equivalent thereof); or
- (7) payments of cash, dividends, distributions, advances or other Restricted Payments by the Company or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

provided that, in the case of clause (2), (3) or (4) 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 permitted pursuant to clause (1) (but only to the extent that dividends are paid to Persons other than the Company or a Restricted Subsidiary) 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 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers’ Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this “— Limitation on Restricted Payments” covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distributions 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 Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor, Pari Passu Subsidiary Guarantee of any 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;
 - (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; or
 - (f) with respect to any PRC Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clauses (2)(h), (2)(n) or 2(o) of the “— Limitation of 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 payments on the Notes.

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) the issuance or sale of 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, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any other Restricted Subsidiary, unless (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee 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 until the Notes have been paid in full.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or any 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 (2) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company or such Restricted Subsidiary; 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 such 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 to directors of the Company who are not employees of the Company;
- (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 employment agreement, employee benefit plan, customary officer or director indemnification agreement or any similar arrangement entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business and payments pursuant thereto;
- (5) loans or advances to employees in the ordinary course of business not to exceed US\$1.0 million in the aggregate at any one time outstanding;
- (6) any sale of Capital Stock (other than Disqualified Stock) of the Company or Incurrence by the Company or any Restricted Subsidiary of Subordinated Shareholder Loans; and

- (7) 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, which as of the Original Issue Date require a majority shareholder approval of any such scheme.

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 circular, 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 the Company and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary; *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 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 a shareholder, officer or director of such Restricted Subsidiary).

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 secured equally and ratably with (or if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) such Lien.

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 and its Restricted Subsidiaries may enter into a Sale and Leaseback Transaction if:

- (1) the Company or the Restricted Subsidiary, as applicable, 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 the Restricted Subsidiary, as applicable, applies the proceeds of such transaction in compliance with, the covenant described below under the caption “— Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;
- (3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of clause (1) of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock” after giving pro forma effect to such Asset Disposition; and
- (4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets. 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) 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 the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire Replacement Assets;

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\$10.0 million (or the Dollar Equivalent thereof) will be carried forward and

accumulated. When accumulated Excess Proceeds exceeds US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

On the Offer to Purchase Payment Date, the Company shall to the extent lawful: (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee 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. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture governing the 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 to Purchase will set forth the provision of the Indenture pursuant to which the redemption shall occur, any other information required by applicable law to be included therein and all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

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 Notes (and such other *pari passu* Indebtedness) will be purchased on a pro rata basis by the Company. 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 a Permitted Business; 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 circular 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 or be continuing at the time of or after giving effect to such designation; (2) neither the Company nor any Subsidiary Guarantor provides credit support for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under the caption “— Limitation on Liens”; (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its

Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “— Limitation on Restricted Payments.”

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided that* (1) no Default shall have occurred or be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “— Limitation on Liens”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall

upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under “— Security.”

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 to perform its obligations under the Notes, the relevant Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or such 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, 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 either of the 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 common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided that* if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the first semi-annual period of the Company, copies of its financial statements (on a consolidated basis) in respect of such semi-annual 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 two most recent fiscal semi-annual periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio; 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 first priority 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 (other than a default specified in clauses (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 having an outstanding principal amount of US\$10 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 million (or the Dollar Equivalent thereof) 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 of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a 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 such Restricted Subsidiary or for any substantial part of the property and assets of the Company or any such Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any such Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a 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 such Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any such Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors;
- (9) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any 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 Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms in writing its obligations under any Security Document 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 Collateral Agent ceases to have a first priority 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 request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Restricted Subsidiary,

the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may 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 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.

A Holder 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 request and the offer of indemnity; 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 of a Note to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Two 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 of any default or defaults in the performance of any covenants or agreements under the Indenture. See “— Provision of Financial Statements and Reports.”

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the “Surviving Person”) shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong, Bermuda or the British Virgin Islands or the United States or any jurisdiction thereof 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 payment is made, 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 “— 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, unless such 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 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 will consolidate with or 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), unless:

- (1) such 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 and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the 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 payment is made, 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)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “— Limitation on Asset Sales” covenant or any Subsidiary Guarantor whose Subsidiary Guarantee 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 with and into the Company or any other Subsidiary Guarantor, so long as the Company or such 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 and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee, in trust, money and/or U.S. Government Obligations 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 (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 of 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 will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture 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 such clauses (3), (4), (5)(x) and (7) under the first paragraph and such 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, in trust, of money and/or U.S. Government Obligations 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 provision described in clause (1)(b) under “— Defeasance — Defeasance and Discharge”.

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 with respect to the Notes 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.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when:

- (a) either:
 - (1) all of the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust by the Company and thereafter repaid to the Company) have been delivered to the Trustee for cancellation; or
 - (2) all Notes not theretofore delivered to the Trustee for cancellation have become due and payable pursuant to an optional redemption notice or otherwise or will become due and payable within one year, and the Company or any Subsidiary Guarantor has irrevocably deposited or caused to be deposited with the Trustee funds, in cash in U.S. dollars, non-callable U.S. Government Obligations or a combination thereof, in an amount sufficient to pay and discharge the entire indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;
- (b) the Company or any Subsidiary Guarantor has paid all other sums payable under the Indenture by the Company; and
- (c) no Default or Event of Default will have occurred and be continuing on the date of such deposit or will occur as a result of such deposit and such deposit will not result in a breach or violation of, or constitute a default under, any other instruments to which the Company or any Subsidiary Guarantor is a party or by which the Company or any Subsidiary Guarantor is bound.

The Trustee will acknowledge the satisfaction and discharge of the Indenture if the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with. The Trustee shall be entitled to rely on such certificate and/or opinion without any liability or responsibility to any person.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees, the Intercreditor Agreement or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes 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 or Collateral Agent;
- (4) add any Subsidiary Guarantor, or any Subsidiary Guarantee, or release any Subsidiary Guarantor from any Subsidiary Guarantee, 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 as provided or permitted by the terms of the Indenture or the Intercreditor Agreement;
- (7) add additional Collateral to secure the Notes or any Subsidiary Guarantee and create or register Liens on such additional Collateral;
- (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;
- (10) permit Permitted Pari Passu Secured Indebtedness in accordance with the terms of the Indenture (including, without limitation, permitting the Trustee and the Collateral Agent to enter into the Intercreditor Agreement (if any) or any amendments to 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) permit the Collateral Agent to hold the Collateral for the Holders and the holders of any Permitted Pari Passu Secured Indebtedness;
- (12) make any other change that does not materially and adversely affect the rights of any Holder; or
- (13) conform the text of the Indenture, the Notes or the Subsidiary Guarantees to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes or the Subsidiary Guarantees.

Amendments With Consent of Holders

Amendments of the Indenture, the Notes, the Subsidiary Guarantees, the Intercreditor Agreement or any Security Document may be made by the Company, the Subsidiary Guarantors, the Collateral Agent and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision

of the Indenture, the Notes, the Subsidiary Guarantees, the Intercreditor Agreement or any Security Documents; 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 place or time of payment of principal of, or premium, if any, or interest on, any Note, or change the currency payable on, any Note or change the method of calculation, that would result in the reduction of such principal, premium, if any, or interest;
- (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 from its Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of any Security Document or any provision of the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;
- (13) consent to the assignment or transfer by the Company or any Subsidiary Guarantor of any of their rights or obligations under the Indenture or the Subsidiary Guarantees except as permitted pursuant to the provisions described under “Consolidation, Merger and Sale of Assets”;
- (14) change the redemption date or the redemption price of the Notes from that stated under the captions “— Optional Redemption” or “— Redemption for Taxation Reasons”;

- (15) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or
- (16) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any 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 and any of the Subsidiary Guarantors in the Indenture, or in any of the Notes or the 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, or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes and waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under U.S. federal securities laws.

Concerning the Trustee, the Collateral Agent, the Paying Agent and Transfer Agent

Citicorp International Limited will be appointed as Trustee under the Indenture and as Collateral Agent with respect to the Collateral under the Security Documents, Citigroup Global Markets Deutschland AG will be appointed as registrar (the “Registrar”), and Citibank, N.A., London Branch will be appointed as paying agent (the “Paying Agent”) and the transfer agent (the “Transfer Agent”) with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee and the Collateral Agent will use the same degree of care and skill, as applicable, in its exercise of the rights and powers vested in it under the Indenture or the Security Documents as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture will contain limitations on the rights of the Trustee or the Collateral Agent, should they become creditors 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 and the Collateral Agent are permitted to engage in other transactions with the Company and its Affiliates and can profit therefrom without being obliged to account such account such profit. The Trustee may have interest in or may be providing or may in the future provide financial or other services to other parties.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any

other directive 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.

Citicorp International Limited will initially also act as Collateral Agent under the Security Documents in respect of the Collateral. The Collateral 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 Collateral Agent and the Trustee may have obligations under the Indenture and the Security Documents that are in conflict with the interests of the Holders. The Collateral Agent and the Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents, as applicable, for the benefit of the Holders unless such Holders have offered to the Trustee and/or the Collateral Agent indemnity and/or security satisfactory to the Trustee and the Collateral Agent, as applicable, against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Collateral Agent and the Trustee, 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 Collateral Agent or the Trustee in respect of such risks.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a paying agent in Singapore upon the issue of any Notes in definitive form. An announcement of such issue will be made on the SGX-ST and such announcement will include all material information with regard to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Book-Entry; Delivery and Form

The Notes will be represented by one or more global notes in registered form without interest coupons attached (each a “Global Note”). Beneficial interests in a Global Note may be offered, sold or otherwise transferred only: (i) to the Company or any subsidiary thereof, (ii) outside the United States in a transaction complying with the provisions of Rule 904 under the Securities Act, (iii) pursuant to an available exemption from the registration requirements of the Securities Act or (iv) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States. On the Original Issue Date, the Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

Global Note

Ownership of beneficial interests in the Global Note (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “— Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially

owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Note for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Trustee, the Collateral Agent or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Note

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and additional amounts) will be made to the Paying Agent. The Paying Agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. The Company will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “— Additional Amounts.”

Under the terms of the Indenture, the Company, the Trustee and the Collateral Agent will treat the registered holder of the Global Note (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Trustee, the Paying Agent and the Transfer Agent or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Note

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any

portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no book-entry interest of 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 the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "Transfer Restrictions" in this offering circular.

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Trustee, the Collateral Agent, the Paying Agent, the Transfer Agent or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Individual Definitive Notes

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed by the Company within 90 days (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depositary or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by the Company and the registrar to complete, execute and deliver such individual definitive notes.

Furthermore, if there is an Event of Default under the Notes, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants. In all cases,

individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

In the event that any of the Global Notes are exchanged for Definitive Notes, announcement of such exchange shall be made by or on behalf of the company 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.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in mails of the relevant jurisdiction (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors 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, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint Corporation Service Company for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees, and the Indenture will be governed by, and construed in accordance with, the laws of the State of New York. The Security Documents that exist on the Original Issue Date are, or will be, governed by the laws of the British Virgin Islands or Hong Kong, as the case may be.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the Notes” for which no definition is provided.

“2007 Notes” means the US\$300,000,000 9.125% Senior Notes due 2014 issued by the Company pursuant to the indenture dated as of May 4, 2007.

“2007 Notes Indenture” means the indenture dated as of May 4, 2007, as amended or supplemented from time to time, pursuant to which the 2007 Notes were issued.

“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 or niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the principal amount of the Note, plus all required remaining scheduled interest payments due on such Note through October 16, 2016 (but excluding accrued and unpaid interest), 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 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, transfers or other dispositions of inventory, receivables, other current assets (including properties under development for sale and completed properties for sale) or completed properties held for rental purpose in the ordinary course of business;
- (2) sales, transfers or other dispositions of cash and Temporary Cash Investments;
- (3) 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;
- (4) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$2 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (5) 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;
- (6) any transfer, assignment or other disposition deemed to occur in connection with creating granting any Permitted Lien;
- (7) a transaction covered by the covenant under the caption “— Consolidation, Merger and Sale of Assets”; 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 currency.

“Board of Directors” means the board of directors 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 any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“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.

“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.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;
- (2) the merger, amalgamation or consolidation of the Company with or into another Person or the merger or amalgamation of another Person other than one or more Permitted Holders with or into the Company, or the sale of all or substantially all the assets of the Company to another Person other than one or more Permitted Holders;
- (3) the Permitted Holders are the beneficial owners within the meaning of Rule 13d-3 under the Exchange Act of less than 50% of the total voting power of the Voting Stock of the Company;
- (4) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

- (5) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least a majority of the directors then still in office who were members of the Board of Directors on the Original Issue date or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (6) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and 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 or any Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of each initial Subsidiary Guarantor owned by the Company or a Subsidiary Guarantor.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the United States Treasury security having a maturity comparable to the remaining term of the notes 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 the remaining term of the notes.

“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 (or 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 the trustee obtains fewer than three such Reference Treasury Dealer Quotations, the average of all such Quotations.

“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), 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), less all non-cash items increasing Consolidated Net Income,

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided that* 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.

“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, or secured by a Lien on any asset of, 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.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used 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.

“Cross Border Secured Indebtedness” means (i) Indebtedness the proceeds of which are disbursed in one jurisdiction but which Indebtedness or credit support therefor is guaranteed by a guarantor located in another jurisdiction, or secured by Liens over assets located in another jurisdiction, and (ii) any Guarantees or Indebtedness (including reimbursement obligations in respect of credit support) related to the Indebtedness referred to in clause (i).

“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.

“Debt Documents” means, collectively, the indenture for the 2007 Notes, the Indenture, the US\$300.0 Million Facility Agreement and the documents evidencing any Permitted Pari Passu Secured Indebtedness and any letters appointing any agent or the Collateral Agent.

“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 date that is 183 days after 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 date that is 183 days after 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 date that is 183 days after the Stated Maturity of the Notes; *provided that* any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings in an equivalent amount.

“Equity Offering” means (i) any bona fide underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any bona fide underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price, in each case to a person other than a Restricted Subsidiary or Permitted Holder; *provided that* any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank S.A./N.V.

“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.

“Fitch” means Fitch Ratings Ltd. and its 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 two semi-annual periods 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 “Two Semi-annual Period”) to (2) the aggregate Consolidated Fixed Charges during such Two Semi-annual 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 Two Semi-annual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-annual 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, Disqualified Stock or Preferred Stock;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account

any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the two full fiscal semi-annual 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 Hong Kong Financial Reporting Standards 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.

“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 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 Entrusted Loans, capital commitments, deferred payment obligation 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; *provided that* such Indebtedness is not reflected on the balance sheet of the Company or any Restricted Subsidiary (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided that:

- (1) 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) 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) 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 if such Hedging Obligation terminated at that time due to default by such Person.

“Intercreditor Agreement” has the meaning set forth under “— Security.”

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“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.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the assets (net of 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 (i) 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, (ii) 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 Fitch or any of its successors or assigns or (iii) 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 or Fitch, as the case may be.

“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).

“Listing Rules” means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd.

“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 or securities convertible or exchangeable into 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 Agent, the 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.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor.

“Officers’ Certificate” means a certificate signed by two Officers.

“Opinion of Counsel” means a written opinion from legal counsel who is acceptable to the Trustee and the Collateral Agent, as applicable. The counsel may be an employee of or counsel to the Company.

“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 of Indebtedness of the Company (including Additional Notes); *provided that* (1) the Company and such Subsidiary Guarantor were 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.

“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 Business” 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 (as described in this offering circular) on the Original Issue Date.

“Permitted Holders” means any or all of the following:

- (1) Mr. Wong Sai Chung;
- (2) any Affiliate or direct family member of the Person specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are more than 80% owned by Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary 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 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 in a Permitted Business;
- (2) 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; and
- (16) other Investments which, when taken together with all other Investments pursuant to this clause (16) and then outstanding will not exceed US\$10.0 million (or the Dollar Equivalent thereof).

"Permitted Liens" means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance, and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;

- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided that* such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; provided further that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (f) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “— Limitation on Indebtedness and Preferred Stock”; *provided that* such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “— Security — Permitted Pari Passu Secured Indebtedness”;
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;

- (18) Liens (including extensions and renewals thereof) upon assets, real or personal property or equipment acquired after the Original Issue Date; *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 “— 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 assets, property or equipment, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such assets, property, equipment, development, construction or improvement and (c) such Lien shall not extend to or cover any assets, property or equipment other than such item of assets, property and or equipment and any development, construction or improvements on such item, *provided that*, in the case of clauses (b) and (c), such Lien may cover other assets, property or equipment (instead of or in addition to such item of assets, property or equipment or such development, construction 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 assets, property or equipment (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such assets, property or equipment have been acquired since the date of such financial statements, the cost of such assets, property or equipment) 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 Incurred by a Restricted Subsidiary or deposits made by a Restricted Subsidiary to secure Entrusted Loans;
- (20) 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;
- (21) other Liens securing obligations in an aggregate amount not exceeding US\$10.0 million; and
- (22) Liens securing Indebtedness Incurred under clauses 2(n), (o) or (p) of the covenant described under “— 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), (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 (other than Public Indebtedness) of, and all Preferred Stock issued by the Restricted Subsidiaries; *provided that*, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding the amount of any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (b), (d), (f) or (g) 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.

“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.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Rating Agencies” means (1) S&P and (2) Fitch, and (3) if S&P or Fitch or both shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Fitch or both, 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 Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories) and (3) the equivalent of any such category of S&P, or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., a decline in a rating from “BB+” to “BB,” as well as from “B” 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, the Company or the Company and its Subsidiaries, taken as a whole, is under publicly announced consideration for possible downgrade by either 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 either of the Notes or the Company is rated by both S&P and Fitch on the Rating Date as Investment Grade, such rating of the Notes or the Company by either Rating Agency shall be below Investment Grade;
- (b) in the event either of the Notes or the Company is rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, such rating of the Notes or the Company by such Rating Agency shall be below Investment Grade; or
- (c) in the event either of the Notes or the Company is rated below Investment Grade by both Rating Agencies on the Rating Date, such rating of the Notes or the Company by either 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. on the fifth 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.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, and its successors.

“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 Liabilities” means, collectively, the obligations under the Indenture, the 2007 Notes Indenture, the US\$300.0 Million Facility Agreement, the Permitted Pari Passu Secured Indebtedness and the Security Documents.

“Security Documents” means, collectively, the pledge agreements, the Intercreditor Agreement and any other agreements or instruments that may evidence or create any security interest in favor of the Collateral Agent 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 or, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its 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.

“Significant Subsidiary” means any Subsidiary that would be a “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 10.0%.

“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 or any Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee, pursuant to a written agreement to such effect.

“Subsidiary” means, with respect to any specified Person:

- (1) any corporation, association or other business entity of which the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders’ agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly: (a) as to more than 50% by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof), or (b) as to 50% by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof), and the Person has, directly or indirectly, the requisite control over such entity to prevent it from incurring any Indebtedness, or taking any other action at any time, in contravention of any of the provisions of the Indenture that are applicable to such entity; or
- (2) any partnership or limited liability company of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

“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 any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

“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.

“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.

“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, Hong Kong and Singapore 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, Hong Kong and Singapore or any agency of any of the foregoing, in each case maturing within one year;
- (2) 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, Hong Kong, Singapore or Australia, 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 under Section 3(a)(62) of the Exchange 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 “A-1” (or higher) according to S&P, “P-1” (or higher) according to Moody’s or “F1” (or higher) according to Fitch;
- (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, Moody’s or Fitch;
- (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) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Bank of China, Industrial and Commercial Bank of China, China Construction Bank, China Agricultural Bank, China Development Bank, Bank of Communications, Shanghai Pudong Development Bank, Minsheng Bank, China Merchants Bank, CITIC Industrial Bank, China Everbright Bank, Asia Commercial Bank, Bank of East Asia, Chiyu Banking Corporation, CITIC Ka Wah Bank, Dah Sing Bank, BS Bank, Fubon Bank, Industrial and Commercial Bank of China (Asia) Limited, Hang Seng Bank, The Hongkong and Shanghai Banking Corporation Limited, Liu Chong Hing Bank, Nanyang Commercial Bank, Shanghai Commercial Bank, Wing Hang Bank and Wing Lung Bank Limited, (ii) any other bank or trust company organized under the laws of the PRC or Hong Kong whose long-term debt is rated as high or higher than any of those banks listed in clause (i) of this paragraph or (iii) any other bank organized under the laws of the PRC or Hong Kong; *provided that*, in the case of clause (iii), such deposits do not exceed US\$10 million (or the Dollar Equivalent thereof) with any single bank or US\$30 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination thereafter.

“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 semi-annual period for which consolidated financial statements of the Company (which the Company shall use its reasonable 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 in each case as of such date, 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 and payable within 90 days.

“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.

“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 timely 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 timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in each case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any such U.S.

Government Obligations or a specific payment of principal of or interest on any such U.S. Government Obligations held by such custodian for the account of the holder of such 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 Obligations or the specific payment of principal of or interest on the U.S. Government Obligations evidenced by such depository receipt.

“US\$300.0 Million Facility” means the US\$300.0 million term loan facility granted to the Company pursuant to the US\$300.0 Million Facility Agreement.

“US\$300.0 Million Facility Agreement” means the term loan facility agreement dated October 22, 2010 by and among (i) the Company, (ii) the Subsidiary Guarantors and (iii) China Development Bank Corporation, Hong Kong Branch.

“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 (i) any director’s qualifying shares or Investments by foreign nationals mandated by applicable law or (ii) in the case of PRC Subsidiaries, shares of up to 2% of the total share capital held by employees for tax reasons) by such Person or one or more Wholly Owned Subsidiaries of such Person.

TAXATION

The following summary of certain tax provisions under the PRC and Hong Kong law is based on current law and practice. It does not purport to be comprehensive and does not constitute legal or tax advice. Prospective investors (particularly those subject to specific tax rules, such as banks, dealers, insurance companies and tax-exempt entities) should consult their own tax advisers regarding the tax consequences of an investment in the Notes.

Hong Kong Taxation

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) 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
- (b) a corporation carrying on a trade, profession or business in Hong Kong; or
- (c) 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 the Notes as the Notes should not be regarded as “Stocks” for the purposes of the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

British Virgin Islands Taxation

A company incorporated under the Business Companies Act, 2004, as amended, of the British Virgin Islands, is exempt from all provisions of the Income Tax Act (as amended) of the British Virgin Islands (including with respect to all amounts of principal and premium payable in respect of the Notes and other amounts payable to persons who are not persons resident in the British Virgin Islands).

Capital gains realized with respect to the Notes by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to the Notes, save for interests payable to or for the benefit of an individual resident in the European Union.

Cayman Islands Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) in addition, that no tax is levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of 20 years from August 28, 2007.

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the government of the Cayman Islands, save certain stamp duties which may be applicable, from time to time, on certain instruments. The Cayman Islands is not a party to any double tax treaties.

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Company does not hold, and does not intend to hold, any interest in land in the Cayman Islands.

PRC Taxation

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 circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Taxation on Interest and Capital Gains. Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% (or lower treaty rate, if any) is applicable to interest payable to investors that are “non-resident enterprises” and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant interest income is not effectively connected with the establishment or place of business, to the extent such interest is derived from sources within the PRC. Similarly, any gain realized on the transfer of the Notes by such investors is also subject to a 10% (or lower treaty rate,

if any) PRC income tax if such gain is regarded as income derived from sources within the PRC. The Company is currently not treated as PRC enterprises by the relevant tax authorities. There is uncertainty as to whether the Company will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If the Company is treated as a PRC “resident enterprise,” the interest the Company pays in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, would be treated as income derived from sources within the PRC and may be subject to PRC withholding tax at the rate of up to 10% (or lower treaty rate, if any) for non-resident enterprise investors or 20% individual income tax rate (or lower tax treaty rate, if any) for non-resident individual investors, which may materially and adversely affect the value of investment in the Notes.

Stamp duty. No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note.

PLAN OF DISTRIBUTION

We intend to offer the Notes through the Initial Purchaser. Subject to the terms and conditions contained in a purchase agreement dated October 8, 2013 (the “Purchase Agreement”) by and among the Initial Purchaser, us and the Subsidiary Guarantors, we have agreed to sell to the Initial Purchaser and the Initial Purchaser has agreed to purchase from us the Notes.

Subject to the terms and conditions set forth in the Purchase Agreement, the Initial Purchaser has agreed to purchase all of the Notes being sold pursuant to the Purchase Agreement if any of these Notes are purchased. The price at which the Notes are offered and other selling terms may be changed from time to time without notice by the Initial Purchaser. The Initial Purchaser may offer the Notes in various jurisdictions through certain of its affiliates.

We and the Subsidiary Guarantors have agreed in the Purchase Agreement to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchaser may be required to make in respect thereof.

The Initial Purchaser is offering the Notes, subject to prior sale, when, as and if issued to and accepted by it, subject to approval of legal matters by its counsel, including the validity of the Notes and Subsidiary Guarantees, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchaser of officer’s certificates and legal opinions. The Initial Purchaser reserves the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The Initial Purchaser or its affiliates may purchase the Notes for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Notes and/or other securities of the Company, its subsidiaries or associates at the same time as the offer and sale of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this offering circular relates (notwithstanding that such selected counterparties may also be purchasers of Notes). The Initial Purchaser or certain of its affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Company and the Initial Purchaser have agreed that private banks will be paid a placement fee in connection with the purchase of Notes by clients of such private banks, which placement fee may be deducted from the purchase price payable for such Notes upon settlement.

Commissions and Discounts

The Initial Purchaser proposes initially to offer the Notes at the offering price set forth on the cover page of this offering circular. After the initial offering, the offering price or any other term of the offering may be changed.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act or any applicable state securities laws. The Initial Purchaser proposes to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Regulation S under the Securities Act. The Initial Purchaser will not offer or sell the Notes except pursuant to offers and sales outside the United States within the meaning of Regulation S under the Securities Act.

Notes sold pursuant to Regulation S may not be offered or resold in the United States, except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under “Transfer Restrictions.”

New Issue of Notes

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 Official List of the SGX-ST. We have been advised by the Initial Purchaser that it presently intends to make a market in the Notes after completion of the offering. However, it is under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of the Notes will be made to investors on or about the closing date specified on the cover of this offering circular, which will be the 5 business day following the date of this offering circular (such settlement being referred to as “T + 5”).

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 of the Notes who wish to trade the Notes on the date of this offering circular or the next 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 make such trades should consult their own advisors.

No Sales of Similar Securities

We have agreed that we will not, for a period of 90 days after the date of this offering circular, without first obtaining the prior written consent of the Initial Purchaser, directly or indirectly, sell, offer, contract or grant any option to sell, issue, pledge or otherwise dispose or transfer (or enter into any transaction which is designed to, or could be expected to result in the deposition in the future of) any debt securities with a tenor of more than one year, except for the Notes sold to the Initial Purchaser pursuant to the Purchase Agreement.

Short Positions and Stabilizing Transactions

In connection with the offering, the Initial Purchaser may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchaser of a greater principal amount of Notes than it is required to purchase in the offering. Such Initial Purchaser must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchaser is concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Merrill Lynch International, as the stabilizing manager, or any person acting for it, may effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilizing manager, or any person acting for it, will undertake stabilization action. Any stabilization action must be conducted by the stabilizing manager, or person(s) acting for it, in accordance with all applicable laws and rules. Similar to other purchase transactions, the Initial Purchaser's purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the Initial Purchaser makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchaser makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Notice to Prospective Investors in the PRC

This offering circular does not constitute a public offer of the Notes, whether by sale or by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering circular or any other document.

Notice to Prospective Investors in Hong Kong

The Notes have not been and will not be offered or sold in Hong Kong, by means of any document, 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 under the SFO or (ii) in 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. The Initial Purchaser has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are intended to be disposed of to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

Notice to Prospective Investors in Singapore

This offering circular or any other material distributed in relation to the Notes have not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the Notes will be offered in Singapore pursuant to exemptions under Section 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, the Notes have not been offered or sold or been caused to be made the subject of an invitation for subscription or purchase and will not be offered or sold or be made the subject of an invitation for subscription or purchase, and has not been circulated or distributed, nor will this offering circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, be circulated or distributed whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section

275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the 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 under the SFA; or
- (b) a trust (where the trustee is not an accredited investor under the SFA) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor under the SFA,

securities (as defined in Section 239(1) of the SFA) of that corporation, or the beneficiaries' rights and interest (however described) in that trust, as the case may be, shall not be transferable within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA unless:

- (1) the transfer is to an institutional investor under Section 274 of the SFA, or to a relevant person defined in Section 275(2) of the SFA respectively, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given or the transfer;
- (3) where the transfer is by operation of law; or
- (4) as specified in Section 276(7) of the SFA.

Notice to Prospective Investors in Japan

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 the Notes have not, directly or indirectly, been offered or sold and will not, directly or indirectly, be offered or sold 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, a 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 any other applicable laws and regulations of Japan.

Notice to Prospective Investors in the United Kingdom

In the United Kingdom, this offering circular is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This document must

not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

Notice to Prospective Investors in the Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes unless the Company is listed on the Cayman Islands Stock Exchange.

Notice to Prospective Investors in the British Virgin Islands

No invitation has been or will be made on our behalf, directly or indirectly, to any person resident in the British Virgin Islands to subscribe for any of the Notes.

Other Relationships

The Initial Purchaser and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, charge or other transfer of the Notes.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only in offshore transactions outside of the United States in reliance on Regulation S under the Securities Act.

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

1. represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a purchaser that is outside the United States;
2. represent that it is purchasing such Notes in an offshore transaction in accordance with Regulation S of Securities Act;
3. acknowledge that the Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States;
4. acknowledge that the Notes are being offered and sold only outside the United States, pursuant to Regulation S under the Securities Act;
5. agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;
6. acknowledge that the Company, the Subsidiary Guarantors, the Paying Agent, the Initial Purchaser and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Company, the Subsidiary Guarantors, the Paying Agent and the Initial Purchaser. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;
7. acknowledge that neither we nor the Initial Purchaser nor any person representing us or the Initial Purchaser has made any representation to it with respect to us or the offering, other than the information contained in this offering circular;
8. represent that it is relying only on this offering circular in making its investment decision with respect to the Notes; and
9. represent that it has had access to such financial and other information concerning us and the Notes as it has deemed necessary in connection with its decision to purchase the Notes, including an opportunity to ask questions of, and request information from, us.

RATINGS

The Notes have been rated “B–” by Fitch Ratings and “B–” by Standard & Poor’s. 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. There can be no assurance 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. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of our Company or on our Company.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Latham & Watkins as to matters of United States federal securities law, New York law and Hong Kong law, Conyers Dill & Pearman (Cayman) Limited as to matters of Cayman Islands law, Conyers Dill & Pearman as to matters of British Virgin Islands law and Global Law Office as to matters of the PRC law. Certain legal matters will be passed upon for the Initial Purchaser by White & Case as to the matters of United States federal securities law, New York law and Hong Kong law.

INDEPENDENT AUDITOR

The consolidated financial statements of the Group for each of the years ended December 31, 2011 and 2012, have been audited by Deloitte Touche Tohmatsu, independent auditor, and have been extracted from the Annual Report for each of the years ended December 31, 2011 and 2012 for inclusion in this offering circular. The condensed consolidated financial statements for the six months ended June 30, 2013, have been reviewed by Deloitte Touche Tohmatsu, independent auditor, and have been extracted from the Interim Report for the six months ended June 30, 2013 for inclusion in this offering circular.

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The following report has been extracted from the Company's interim report dated August 29, 2013 entitled "Report on Review of Condensed Consolidated Financial Statements". The report was prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for inclusion in the interim report and has been extracted for inclusion in this offering circular with the written consent of Deloitte Touche Tohmatsu, which has not been withdrawn as of the date of the offering circular.

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF CHINA PROPERTIES GROUP LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 13 to 36, which comprise the condensed consolidated statement of financial position as of June 30, 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, 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 these condensed consolidated financial statements consists of making inquiries, 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to note 1 to the condensed consolidated financial statements which indicates that, as of June 30, 2013, the Group's current liabilities exceeded its current assets by approximately HK\$307,474,000. The Group had other commitments contracted for but not provided in the condensed consolidated financial statements of approximately HK\$930,989,000 as disclosed in note 17 to the condensed consolidated financial statements. In addition, there are borrowings and fixed rate senior notes with carrying amounts of HK\$2,552,147,000 and HK\$797,311,000 which are due to be repaid within one year from the end of the reporting period. The Group is taking several measures as disclosed in note 1 to the condensed consolidated financial statements, some of which have already been implemented, to improve the financial position of the Group and after taking into account these steps, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due. The condensed consolidated financial statements do not include any adjustments that would result from a failure to implement such measures as disclosed in note 1 to the condensed consolidated financial statements.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 29, 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2013

	NOTES	Six months ended June 30,	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Revenue	3 & 4	700,791	285,846
Cost of sales		(382,887)	(167,698)
Gross profit		317,904	118,148
Other income and gains	4	14,996	12,838
Selling expenses		(18,385)	(10,087)
Administrative expenses		(54,985)	(63,011)
Finance costs	5	—	—
Profit from operation before changes in fair value of investment properties and conversion option derivative		259,530	57,888
Changes in fair value of investment properties		547,127	1,207,397
Changes in fair value of conversion option derivative		41,152	—
Profit before tax		847,809	1,265,285
Income tax expense	6	(170,487)	(313,152)
Profit for the period attributable to owners of the Company	7	677,322	952,133
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		639,254	206,278
Total comprehensive income for the period attributable to owners of the Company		1,316,576	1,158,411
Earnings per share			
— Basic (HK dollar)	8	0.37	0.53
— Diluted (HK dollar)	8	0.32	0.53

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2013

	NOTES	June 30, 2013 HK\$'000 (unaudited)	December 31, 2012 HK\$'000 (audited)
Non-current Assets			
Property, plant and equipment		356,472	327,644
Prepaid lease payments		161,754	161,652
Investment properties	10	56,928,357	55,281,545
		57,446,583	55,770,841
Current Assets			
Properties under development for sales		3,641,254	3,595,693
Properties held for sales		511,176	463,239
Trade and other receivables, deposits and prepayments	11	372,080	365,002
Tax recoverable		—	18,181
Pledged bank deposits		255,459	421,436
Bank balances and cash		434,262	48,771
		5,214,231	4,912,322
Current Liabilities			
Deposits received on sales of properties		485,774	1,146,923
Construction costs accruals		500,537	465,245
Other payables and accruals		154,378	154,768
Amount due to a shareholder	19(i)	251,302	103,559
Tax payable		780,256	755,907
Borrowings — due within one year	12	2,552,147	3,147,668
Fixed rate senior notes	13	797,311	—
		5,521,705	5,774,070
Net Current Liabilities		(307,474)	(861,748)
Total Assets less Current Liabilities		57,139,109	54,909,093
Non-current Liabilities			
Borrowings — due after one year	12	1,913,556	577,181
Fixed rate senior notes	13	—	795,529
Convertible note	14	295,566	270,323
Conversion option derivative	14	203,692	244,844
Deferred tax liabilities		11,971,759	11,655,603
Loan from a shareholder	19(ii)	1,056,000	1,056,000
		15,440,573	14,599,480
Net Assets		41,698,536	40,309,613
Capital and Reserves			
Share capital	15	180,907	180,907
Share premium and reserves		41,517,629	40,128,706
Total Equity		41,698,536	40,309,613

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2013

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Revaluation reserve HK\$'000	Special reserve HK\$'000 (Note a)	Other reserve HK\$'000 (Note b)	General reserve HK\$'000 (Note c)	Shareholder's contribution reserve HK\$'000 (Note d)	Share option reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At January 1, 2012 (audited)	180,907	1,378,443	6,410	778,662	2,455,562	53,015	—	7,567	4,773,460	28,100,742	37,734,768
Profit for the period	—	—	—	—	—	—	—	—	—	952,133	952,133
Other comprehensive income for the period	—	—	—	—	—	—	—	—	206,278	—	206,278
Total comprehensive income for the period	—	—	—	—	—	—	—	—	206,278	952,133	1,158,411
Recognition of share-based payment	—	—	—	—	—	—	—	3,946	—	—	3,946
Deemed contribution	—	—	—	—	—	—	34,099	—	—	—	34,099
At June 30, 2012 (unaudited)	180,907	1,378,443	6,410	778,662	2,455,562	53,015	34,099	11,513	4,979,738	29,052,875	38,931,224
At January 1, 2013 (audited)	180,907	1,378,443	6,410	778,662	2,455,562	53,015	161,049	15,503	5,422,581	29,857,481	40,309,613
Profit for the period	—	—	—	—	—	—	—	—	—	677,322	677,322
Other comprehensive income for the period	—	—	—	—	—	—	—	—	639,254	—	639,254
Total comprehensive income for the period	—	—	—	—	—	—	—	—	639,254	677,322	1,316,576
Recognition of share-based payment	—	—	—	—	—	—	—	347	—	—	347
Deemed contribution	—	—	—	—	—	—	72,000	—	—	—	72,000
At June 30, 2013 (unaudited)	180,907	1,378,443	6,410	778,662	2,455,562	53,015	233,049	15,850	6,061,835	30,534,803	41,698,536

Notes:

- (a) Special reserve represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the corporate reorganization ("Corporate Reorganization") to rationalize the Group structure prior to the listing of the Company's share on The Stock Exchange of Hong Kong Limited.
- (b) Other reserve arose from the acquisition by Mr. Wong Sai Chung ("Mr. Wong"), the ultimate controlling shareholder of the Company, of the interests in the Company's subsidiaries owned by other shareholders and the implementation of the Corporation Reorganization.
- (c) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the subsidiaries established in the PRC may make an allocation to the general reserve from its profit for the year (prepared under the generally accepted accounting principles in the PRC) at a rate determined by directors of the relevant subsidiaries. The general reserve can only be used upon approval by the board of directors of the relevant subsidiaries to offset accumulated losses or increase capital.
- (d) Shareholder's contribution reserve represents the deemed contribution arising from loans from shareholder, Mr. Wong.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2013

	Six months ended June 30,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(304,922)	(292,344)
Net cash from (used in) investing activities		
Purchase of property, plant and equipment	(1,683)	(5,919)
Additions to investment properties	(83,210)	(34,569)
Proceeds received from disposal of investment properties	33,455	—
Withdrawal of pledged bank deposits	167,347	1,268
Placement of pledged bank deposits	(1,003)	(186,552)
Interest received	1,692	1,066
	116,598	(224,706)
Net cash from (used in) financing activities		
New borrowings raised	3,025,401	221,675
Repayment of borrowings	(2,329,970)	(65,148)
Advance from a shareholder	116,750	—
Repayment to a shareholder	—	(435,837)
Interest paid	(212,509)	(142,904)
Loan raised expenses	(28,469)	—
	571,203	(422,214)
Net increase (decrease) in cash and cash equivalents	382,879	(939,264)
Cash and cash equivalents at beginning of the period	48,771	1,192,134
Effect of foreign exchange rate changes	2,612	8,114
Cash and cash equivalents at end of the period, represented by bank balances and cash	434,262	260,984

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that, as of June 30, 2013, the Group’s current liabilities exceeded its current assets by approximately HK\$307,474,000 and the Group had other commitments contracted for but not provided in the condensed consolidated financial statements of approximately HK\$930,989,000 as stated in note 17. In addition, there are borrowings and fixed rate senior notes with carrying amounts of HK\$2,552,147,000 and HK\$797,311,000 which are due to be repaid within one year from the end of the reporting period.

In order to improve the Group’s financial position, to provide liquidity and cash flows and to sustain the Group as a going concern, the Group has implemented the following measures:

- (1) The Group is planning to obtain new long term fundings and borrowings from the capital market and banks. At the date of approval of these condensed consolidated financial statements, the Group has successfully raised new other borrowings of HK\$315,497,000.
- (2) The Group has committed marketing plan to stimulate sales of its properties held for sales and pre-sales of properties under development for sales.

The directors of the Company consider that after taking into account the above measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	<i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition guidance</i>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

2. PRINCIPAL ACCOUNTING POLICIES — continued

HKFRS 13	<i>Fair Value Measurement</i>
HKAS 19 (as revised in 2011)	<i>Employee Benefits</i>
HKAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures</i>
Amendments to HKFRS 7	<i>Disclosures — Offsetting Financial Assets and Financial Liabilities</i>
Amendments to HKAS 1	<i>Presentation of Items of Other Comprehensive Income</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2009–2011 Cycle; and</i>
HK(IFRIC) — INT 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>

HKFRS 13 “Fair Value Measurement”

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for ‘fair value’ and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 20.

Amendments to HKAS 1 “Presentation of Items of Other Comprehensive Income”

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a “statement of comprehensive income” is renamed as a “statement of profit or loss and other comprehensive income” and an “income statement” is renamed as a “statement of profit or loss”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

2. PRINCIPAL ACCOUNTING POLICIES — continued

Amendments to HKAS 34 “Interim Financial Reporting” (as part of the annual improvements to HKFRSs 2009–2011 cycle)

The Group has applied the amendments to HKAS 34 “Interim financial reporting” as part of the annual improvements to HKFRSs 2009–2011 cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (“CODM”) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment. Since there has not been a significant change on the assets and liabilities of the Group’s reportable segments (neither for a particular reportable segment or aggregated as a whole) comparing with the amounts disclosed in the consolidated financial statements for the year ended December 31, 2012, the Group has not included total assets and liabilities information as part of segment information.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The following is an analysis of the Group’s revenue and results by reportable and operating segments:

For the six months ended June 30, 2013 (unaudited)

	<u>Property development</u>		<u>Property investment</u>		Others HK\$’000	Total HK\$’000
	Shanghai HK\$’000	Chongqing HK\$’000	Shanghai HK\$’000	Chongqing HK\$’000		
Revenue						
External sales	—	692,121	4,720	—	3,950	700,791
Segment profit (loss)	—	311,225	279,766	299,938	(3,131)	887,798
Other income and gains						14,996
Unallocated expenses						(54,985)
Profit before tax						<u>847,809</u>

For the six months ended June 30, 2012 (unaudited)

	<u>Property development</u>		<u>Property investment</u>		Others HK\$’000	Total HK\$’000
	Shanghai HK\$’000	Chongqing HK\$’000	Shanghai HK\$’000	Chongqing HK\$’000		
Revenue						
External sales	—	274,703	10,105	—	1,038	285,846
Segment profit (loss)	—	103,684	1,011,129	205,204	(4,559)	1,315,458
Other income and gains						12,838
Unallocated expenses						(63,011)
Profit before tax						<u>1,265,285</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

3. SEGMENT INFORMATION — continued

Segment result represents the profit earned by (loss incurred from) each segment including the changes in fair value of investment properties, changes in fair value of conversion option derivative and selling expenses without allocation of other income and gains and administrative expenses including share-based payments and directors' salaries. This is the measure reported to the CODM, the Company's Chief Executive Officer, for the purposes of resource allocation and performance assessment.

4. REVENUE AND OTHER INCOME AND GAINS

	Six months ended June 30,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue		
Sales of residential properties	692,121	274,703
Property rental income	4,720	10,105
Property management income	3,950	1,038
	700,791	285,846
Other income and gains		
Net exchange gain	13,216	8,677
Interest on bank deposits	1,692	1,066
Others	88	3,095
	14,996	12,838
Total revenue and other income and gains	715,787	298,684

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

5. FINANCE COSTS

	Six months ended June 30,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on other borrowings wholly repayable within five years	101,995	—
Interest on bank borrowings wholly repayable within five years	102,469	106,389
Effective interest expense on fixed rate senior notes	38,296	38,296
Effective interest expense on convertible note	25,243	—
Effective interest expense on loan from a shareholder	72,000	—
Total finance costs	340,003	144,685
Less: Amount capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	(340,003)	(144,685)
	—	—

Borrowing costs capitalized during the period arose on the specific borrowings are approximately HK\$140,804,000 (six months ended June 30, 2012: HK\$144,685,000). Borrowing costs capitalized during the period arose on the general borrowing pool of approximately HK\$199,199,000 (six months ended June 30, 2012: nil) are calculated by applying a capitalization rate of 10.12% per annum (six month ended June 30, 2012: nil) to expenditure on qualifying assets.

6. INCOME TAX EXPENSE

	Six months ended June 30,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
Enterprise income tax in the PRC	34,689	4,668
Land appreciation tax ("LAT") in the PRC	—	6,635
	34,689	11,303
Deferred tax:		
Current period	135,798	301,849
	170,487	313,152

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC group entities is 25% for both periods.

Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulations of the PRC on January 27, 1995, all gains arising from transfer of real estate property in the PRC effective from January 1, 1994 are subject to LAT 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 land costs, borrowings costs and all property development expenditures.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

6. INCOME TAX EXPENSE — continued

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods in 2012 and 2013. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately HK\$19,516,053,000 (December 31, 2012: HK\$18,824,999,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

7. PROFIT FOR THE PERIOD

	Six months ended June 30,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' emoluments	768	767
Other staff costs		
— Salaries and other benefits	18,326	14,636
— Contribution to retirement benefits schemes	3,109	3,025
Total staff costs	22,203	18,428
Less: Amount capitalized in investment properties under construction and properties under development for sales	(8,594)	(5,154)
	13,609	13,274
Share-based payment (included in administrative expenses)	347	3,946
Amortization of prepaid lease payments	2,371	3,541
Less: Amount capitalized in construction in progress under property, plant and equipment	(2,343)	(3,514)
	28	27
Depreciation of property, plant and equipment	2,070	2,168
Less: Amount capitalized in construction in progress under property, plant and equipment	(855)	(864)
	1,215	1,304
Cost of properties sold (included in cost of sales)	375,451	161,662
Compensation paid to purchasers to re-schedule delivery of properties	20,458	16,705
Gross rental income from investment properties	(4,720)	(10,105)
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	356	443
	(4,364)	(9,662)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended June 30,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	677,322	952,133
Effect of dilutive potential ordinary shares:		
— Changes in fair value of conversion option derivative	(41,152)	—
— Effective interest expense on convertible note (net of tax (Note))	—	—
Earnings for the purpose of diluted earnings per share	636,170	952,133
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,809,077	1,809,077
Effect of dilutive potential ordinary shares:		
— convertible note	206,612	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,015,689	1,809,077

Note: Since the effective interest expense on convertible note had been capitalized in investment properties under construction and properties under development for sales, there would be no effect on the earnings for the purpose of diluted earnings per share.

The computation of diluted earnings per share for both periods did not assume the exercise of the Company's share options because the exercise price of those options outstanding was higher than the average market price for shares for both periods and all those options were lapsed on March 22, 2013.

9. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors of the Company do not recommend the payment of an interim dividend.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

10. INVESTMENT PROPERTIES

	June 30, 2013 HK'000 (unaudited)	December 31, 2012 HK'000 (audited)
FAIR VALUE		
Completed properties held for rental purpose (Note a)	3,221,442	3,056,979
Leasehold land under and held for construction of properties for rental purpose and investment properties under construction	49,603,174	48,394,370
Sub-total	52,824,616	51,451,349
COST		
Investment properties under construction (Note b)	4,103,741	3,830,196
Total	56,928,357	55,281,545

Notes:

- (a) As at June 30, 2013, included in the Group's completed properties held for rental purpose balance are properties in Shanghai, namely, Phase 1 of Shanghai Concord City with carrying amount of approximately HK\$2,570,053,000 (December 31, 2012: HK\$2,550,311,000); of which around 40% (December 31, 2012: 40%) is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants.
- (b) The amount represents the construction costs for the building portion of certain investment properties under construction. Since the fair value of the investment properties under construction cannot be measured reliably at the end of reporting period, the amounts are carried at cost until the fair value becomes reliably measurable. The land portion is measured at fair value and grouped under leasehold land under and held for construction of properties for rental purpose and investment properties under construction.

The fair values of certain of the Group's investment properties on June 30, 2013 and December 31, 2012 were arrived at on the basis of a valuation carried out on those dates by Cushman & Wakefield Valuation Advisory Services (HK) Ltd. ("C&W") in respect of the properties situated in Shanghai and Chongqing, the PRC. C&W is an independent qualified professional valuer not connected with the Group and has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

The fair values of investment properties in Shanghai and Chongqing as at June 30, 2013 determined by C&W are approximately HK\$43,798,397,000 (December 31, 2012: HK\$42,882,520,000) and HK\$6,212,963,000 (December 31, 2012: HK\$5,798,230,000) respectively. For completed investment properties, the valuations have been arrived at using the capitalization of net income method of valuation, based on the present value of the income to be derived from the properties. For the properties which are currently vacant, the valuation was based on capitalization of the hypothetical and reasonable market rents with a typical lease term. For leasehold land under and held for construction of properties for rental purposes and investment properties under construction, the valuations have been arrived at by using residual approach by making reference to rental yield as available in the relevant market to determine the potential rental income of the completed investment properties, less estimated costs to completion and expected development profit margin. The rental income included in the residual method was principally based on income approach by taking into account the current rents passing and the reversionary income potential of tenancies.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

10. INVESTMENT PROPERTIES — continued

As at June 30, 2013, the development plan on two pieces of land plot located in Chongqing has not yet been approved by the relevant government authority. As at June 30, 2013, the fair values of these two pieces of land amounted to approximately HK\$2,813,256,000 (December 31, 2012: HK\$2,770,599,000) is determined by the directors of the Company with reference to the recent market condition in Chongqing for land transaction.

For investment properties located in Shanghai

For the six months ended June 30, 2013, in determining the fair values of the investment properties located in Shanghai, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

- i. Annual growth rate of rental income is ranging from 3% to 6% (December 31, 2012: ranging from 3% to 6%)
- ii. Occupancy rate for the investment properties is ranging from 50% to 98% (December 31, 2012: ranging from 50% to 98%)
- iii. Expected developer profit is ranging from 10% to 20% (December 31, 2012: ranging from 10% to 20%)
- iv. Discount rate is ranging from 4% to 9% (December 31, 2012: ranging from 4% to 9%) per annum
- v. Rental rate per month per square metre is ranging from HK\$211 to HK\$1,989 (December 31, 2012: ranging from HK\$206 to HK\$1,933)

For investment properties located in Chongqing

For the six months ended June 30, 2013, in determining the fair values of the investment properties located in Chongqing, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

- i. Annual growth rate of rental income is ranging from 4% to 6% (December 31, 2012: ranging from 4% to 6%)
- ii. Occupancy rate for the investment properties is ranging from 60% to 85% (December 31, 2012: ranging from 60% to 85%)
- iii. Expected developer profit is 30% (December 31, 2012: ranging from 25% to 30%)
- iv. Discount rate is ranging from 6% to 11% (December 31, 2012: ranging from 6% to 11%) per annum
- v. Rental rate per month per square metre is ranging from HK\$98 to HK\$1,008 (December 31, 2012: ranging from HK\$94 to HK\$991)

All the Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model (except for those stated at cost with details set out in Note b) and are classified and accounted for as investment properties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

10. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing — continued

As at June 30, 2013, the Group obtained six (December 31, 2012: Six) out of seven (December 31, 2012: seven) State-owned Land Use Rights Certificates (“Certificates”) for Chongqing projects sites. The Group is in the process of obtaining the remaining one (December 31, 2012: one). The carrying amounts of the prepaid lease payments, investment properties and properties under development for sales which relate to the remaining one (December 31, 2012: one) amounted to approximately HK\$85,109,000 (December 31, 2012: HK\$85,042,000), HK\$3,206,475,000 (December 31, 2012: HK\$3,100,663,000) and HK\$313,455,000 (December 31, 2012: HK\$288,238,000) respectively.

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Consideration in respect of completed properties sold is paid in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the agreement date. Consideration in respect of properties sold under pre-sale contracts will be fully received prior to the delivery of the properties to the purchasers.

	June 30, 2013 HK\$'000 (unaudited)	December 31 2012 HK\$'000 (audited)
Trade receivables (Note)	8,459	2,775
Prepayment of business taxes and other PRC taxes	39,521	84,057
Deposits and prepayments	70,937	76,244
Other receivables	253,163	201,926
	372,080	365,002

Note: The average age of these receivables is over 90 days (December 31, 2012: over 90 days).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

12. BORROWINGS

	June 30, 2013 HK\$'000 (unaudited)	December 31, 2012 HK\$'000 (audited)
Bank borrowings	2,067,924	3,093,480
Other borrowings	2,397,779	631,369
	4,465,703	3,724,849

Bank borrowings

The interest rates of the Group's variable rate bank borrowings are based on base rate fixed by the People's Bank of China or London InterBank Offered Rates plus a premium.

The rate of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings ranges from 4.77% to 8.40% (December 31, 2012: 4.89% to 8.40%) per annum.

Other borrowings

Based on scheduled repayment dates set out in the loan agreements, fixed-rate other borrowings of approximately HK\$1,198,889,000 (December 31, 2012: HK\$134,228,000) are shown under current liabilities. The remaining balances of approximately HK\$1,198,890,000 (December 31, 2012: HK\$497,141,000) are repayable more than one year, but not exceeding two years and accordingly, shown under non-current liabilities.

The other borrowings carry at fixed interest rate. The weighted average rate is 13.36% (December 31, 2012: 20.42%) per annum.

The bank and other borrowings outstanding as of June 30, 2013 were secured by the following:

- property, plant and equipment with a net carrying value of approximately HK\$177,056,000 (December 31, 2012: HK\$170,061,000);
- investment properties under construction carried at cost with a carrying value of approximately HK\$671,226,000 (December 31, 2012: HK\$543,649,000);
- investment properties (excluding investment properties under construction carried at cost) with a carrying value of approximately HK\$26,504,980,000 (December 31, 2012: HK\$24,284,475,000);
- prepaid lease payments with a carrying value of approximately HK\$3,282,000 (December 31, 2012: nil);
- properties under development for sales with a carrying value of approximately HK\$2,364,767,000 (December 31, 2012: HK\$3,297,514,000);

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

12. BORROWINGS — continued

Other borrowings — continued

- properties held for sales with a carrying value of approximately HK\$308,532,000 (December 31, 2012: HK\$302,298,000); and
- pledged bank deposits of approximately HK\$255,459,000 (December 31, 2012: HK\$421,436,000).

13. FIXED RATE SENIOR NOTES

On April 27, 2007, the Company issued approximately US\$300 million (approximately HK\$2,340,000,000) in aggregate principal amount of the fixed rate senior notes which contain two components, liability and early redemption options. During the year ended December 31, 2010, the Group repurchased fixed rate senior notes with the carrying amount of US\$197,395,000 (approximately HK\$1,539,681,000) at the market price.

The notes bear interest at a fixed rate of 9.125% per annum. The interest charged for the period is calculated by applying an effective interest rate of approximately 9.62% (six months ended June 30, 2012: 10.85%) per annum. Interest on the notes is payable on May 4 and November 4 of each year. The notes will mature on May 4, 2014. The notes are guaranteed by certain of the Company's subsidiaries. Details of the fixed rate senior notes are set out in the Company's annual report for the year ended December 31, 2012 dated March 29, 2013.

The directors of the Company consider that the fair values of the redemption options at the date of issuance of the notes and at June 30, 2013 and December 31, 2012 are insignificant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

14. CONVERTIBLE NOTE

On January 27, 2012, the Company and Hillwealth Holdings Limited (the "Subscriber"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Wong, entered into a conditional subscription agreement pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for a convertible note of HK\$500,000,000 in cash. The convertible note is interest bearing at 5% per annum and matures on the fourth anniversary of the issue date. The conversion price of the convertible note is HK\$2.42 per share.

On February 21, 2012, the Company and the Subscriber entered into a supplemental agreement to extend the maturity date and the period for conversion of the convertible note to the sixth anniversary of the issue date. Both the Company and the Subscriber have no early redemption rights on the convertible note. The Company shall repay the principal amount outstanding under the convertible note to the Subscriber together with all interest accrued on the sixth anniversary of the date of issue of the convertible note.

The issuance of the convertible note has been approved at the extraordinary general meeting of the Company held on March 16, 2012. On March 19, 2012, the Listing Committee of the Stock Exchange conditionally granted the listing of and permission to deal with the conversion shares, subject to (i) approval by the Independent Shareholders of the issue of the convertible note under Rule 13.36 of the Listing Rules and (ii) fulfillment of all other conditions of the subscription agreement. In accordance with the subscription agreement, all of the conditions precedent had been fulfilled on August 14, 2012 and the issue of the convertible note had been agreed between the Company and the Subscriber to fall on August 14, 2012 with settlement against funds previously advanced by Mr. Wong to the Company.

The convertible note is denominated in Hong Kong dollars ("HK\$") and contain two components, liability component and conversion option derivative. The effective interest rate of the liability component is 18.838% per annum. The conversion option derivative is measured at fair value with changes in fair value recognized in profit or loss.

The fair value of conversion option derivative was calculated using the binomial option pricing model by an independent valuer, Asset Appraisal Limited. The inputs into the model are as follows:

	At 31.12.2012	At 30.6.2013
Spot price (HK\$)	2.44	1.93
Exercise price (HK\$)	2.42	2.42
Risk-free rate	0.36%	1.15%
Discount rate	16.19%	18.10%
Volatility	30.319%	44.271%
Dividend yield	0%	0%

Note: Pursuant to the subscription agreement and the supplemental agreement, conversion option may be exercised at any time after full repayment of the loan principal and all outstanding accrued interest under the facility agreement to China Development Bank Corporation, Hong Kong Branch or the date falling 36 months from the first date a loan was made under the facility agreement (whichever is earlier). The Subscriber will have the right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time up to the sixth anniversary of the date of inception of the convertible note. Management assumes that the conversion period would be started on December 14, 2013, as full repayment of the loan principal and all outstanding accrued interest would be due and settled on that date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

14. CONVERTIBLE NOTE — continued

Expected volatility of the convertible note conversion option derivative was determined using the historical volatility of the price return of the ordinary shares of comparable companies. Because the binominal option pricing model requires the input of subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The movement of the different components of the convertible note for the period is set out as below:

	Liabilities HK\$'000	Conversion option derivative HK\$'000	Total HK\$'000
Carrying amount at date of issue	228,700	271,300	500,000
Interest charged	41,623	—	41,623
Gain arising on changes in fair value	—	(26,456)	(26,456)
As at December 31, 2012	270,323	244,844	515,167
Interest charged	25,243	—	25,243
Gain arising on changes in fair value	—	(41,152)	(41,152)
As at June 30, 2013	295,566	203,692	499,258

15. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
Authorized:		
At January 1, 2012, June 30, 2012, December 31, 2012, January 1, 2013 and June 30, 2013	5,000,000,000	500,000
Issued and fully paid:		
At January 1, 2012, June 30, 2012, December 31, 2012, January 1, 2013 and June 30, 2013	1,809,077,000	180,907

None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

16. CONTINGENT LIABILITIES

At the end of the reporting period, the contingent liabilities of the Group were as follows:

Guarantee

	June 30, 2013	December 31, 2012
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Note)	1,647,692	1,386,417

Note: The guarantees were given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the directors, the fair value of the financial guarantee contracts is not significant. Deposits received on sales of properties prior to the date of revenue recognition are classified as current liabilities in the condensed consolidated statement of financial position.

Legal disputes

As at June 30, 2013, the Group is subjected to several legal claims with aggregate amount of approximately HK\$378,000,000 (unaudited) (December 31, 2012: HK\$360,000,000) in relation to disputes under construction contracts in the properties development operation during the normal course of business. In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that not met the required standards and pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or in the process of making counter claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The net financial effect of both claims and counter-claims is considered insignificant.

Based on the advices from the independent legal advisors, those outstanding legal claims are still in preliminary stage and the final outcome is unable to be determined at this stage. Accordingly no provision is required to be made in the condensed consolidated financial statements. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

17. OTHER COMMITMENTS

	June 30, 2013	December 31, 2012
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Construction commitment contracted for but not provided	930,989	1,028,517

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

18. OPERATING LEASE COMMITMENTS

As lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	June 30, 2013 HK\$'000 (unaudited)	December 31, 2012 HK\$'000 (audited)
Within one year	1,102	5,386
In the second to fifth year inclusive	1,140	1,599
	2,242	6,985

Around 40% (December 31, 2012: 40%) of the Group's investment properties in Shanghai, namely, Phase 1 of Shanghai Concord City is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants. For the Group's marketing strategy, upon the completion Phase 2 of Shanghai Concord City ("Phase 2 North Portion"), the Group will then recruit their target tenants for both Phase 1 of Shanghai Concord City and Phase 2 North Portion. The construction of Phase 2 North Portion is anticipated to be completed in the second half of 2013. The properties generated annual rental yields of average 0.30% (December 31, 2012: 0.60%) for the six months ended June 30, 2013. Leased properties have committed tenants from one to three (December 31, 2012: one to four) years.

As lessee

Minimum lease payments paid under operating leases during the period:

	Six months ended June 30,	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Premises	1,570	2,141

At the end of the reporting period, the Group had commitment for future minimum lease payments under non cancellable operating leases which fall due as follows:

	June 30, 2013 HK\$'000 (unaudited)	December 31, 2012 HK\$'000 (audited)
Within one year	4,643	4,441
In the second to fifth year inclusive	343	2,399
	4,986	6,840

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and are fixed for an average of three (December 31, 2012: three) years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

19. RELATED PARTY TRANSACTIONS

(i) Amount due to a shareholder

Amount due to a shareholder, Mr. Wong, is non-trade in nature, unsecured, interest-free and repayable on demand.

(ii) Loan from a shareholder

Pursuant to an agreement entered between Mr. Wong and the Company on December 31, 2012, the loans were interest free, unsecured and repayable after one year from December 31, 2012. The fair value of loans was determined based on the effective interest rate of 12.00% per annum at initial recognition. The difference between the carrying amount of the loans and the fair value of loans determined on December 31, 2012 amounted to approximately HK\$126,950,000, which had been credited to equity as deemed contribution from a shareholder.

During the period, an agreement was entered with Mr. Wong to extend the loans duration and the loan will be repayable after eighteenth months from December 31, 2012. The difference between the carrying amount of the loans and the fair value at the agreement date (determined based on the effective interest rate of 12.00% per annum) amounted to approximately HK\$72,000,000 which had been credited to equity as deemed contribution from a shareholder.

During the six months ended June 30, 2013, effective interest expense of approximately HK\$72,000,000 (six months ended June 30, 2012: nil) is capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales.

(iii) Other transactions

During the six months ended June 30, 2013, the Group had the following transactions with Pacific Concord Holding Limited ("PCH"), a company in which Mr. Wong has controlling interests, and its subsidiary as follows:

Nature of transactions	Six months ended June 30,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Office premises expenses (Note)	18	18

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

19. RELATED PARTY TRANSACTIONS — continued

(iii) Other transactions — continued

Note: On July 22, 2011, a tenancy agreement (the “Tenancy Agreement”) for the use of the principal place of business of the Company in Hong Kong was entered into between the landlord, a subsidiary of PCH of which ultimate shareholder is Mr. Wong, and the Group. The Tenancy Agreement is effective from August 1, 2011 to July 31, 2014.

On the same date, a sharing agreement was entered into between a subsidiary of PCH and the Group which both parties agreed that the principal office will be divided into two equal halves and each party will be entitled to occupy, use and possess half of the principal office. The rental and the electricity fee, fixed line telephone charge and other charges will be shared equally by the parties.

(iv) Compensation of key management personnel

The directors of the Company considered that the directors are the key management personnel of the Group. The remuneration of key management personnel of the Group during the period was as follows:

	Six months ended June 30,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short term benefits	768	767

The remuneration of directors is determined by the remuneration committee with reference to the involvement and the business performance of the directors of the Company.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Certain Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS — continued

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis — continued

Financial liabilities	Fair value as at June 30, 2013	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Conversion option derivative	Liability: HK\$203,700,000	Level 3	Binominal option pricing model	N/A	N/A
			The fair value is estimated based on risk-free rate, discount rate and share price (from observable market date), volatility of the share price of the Company and dividend yield and exercise price		

There is no transfer between different levels of the fair value hierarchy for the period ended June 30, 2013 and 2012.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair values.

Reconciliation of Level 3 fair value measurements of conversion option derivative

	HK\$'000
At January 1, 2013	244,844
Fair value gain recognized in profit or loss (Note)	(41,152)
At June 30, 2013	203,692

Note: The gain for the period of HK\$41,152,000 relates to conversion option derivative held at the end of the current reporting period.

Fair value measurements and valuation processes

The Group engages qualified external valuers to perform valuations for financial instruments. The accounting officer reports the findings of the valuation prepared by the qualified external valuers to the board of directors of the Group every half year and explain the cause of fluctuations in the fair value of the financial instruments.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

21. EVENT AFTER THE REPORTING PERIOD

On July 3, 2013, the Company granted share options (the "Share Options") to the consultants of the Company (the "Grantees") pursuant to the Company's share option scheme adopted by the Company on February 2, 2007, subject to acceptance by the Grantees. The Share Options entitle the Grantees to subscribe for a total of 36,000,000 share options at an exercise price of HK\$1.93 per share, and each option shall entitle the holder to subscribe for one share. The Share Options are granted with the two years option life from July 3, 2013 to July 2, 2015, and the share options under the scheme are subject to 50% of the share options will be vested if the relevant Grantees have fulfilled the conditions precedent of vesting and the remaining 50% will vest one calendar year thereafter. As at the date of this report, the directors of the Company are in the process of estimating the fair value of the Share Options granted.

The following report has been extracted from the Company's annual report dated March 18, 2013 entitled "Independent Auditor's Report". The report was prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for inclusion in the annual report and has been extracted for inclusion in this offering circular with the written consent of Deloitte Touche Tohmatsu, which has not been withdrawn as of the date of the offering circular.

Deloitte.

德勤

TO THE MEMBERS OF CHINA PROPERTIES GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 97, which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 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 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 and to report our opinion 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. 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 judgment, 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 Group as at December 31, 2012 and of the Group's 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 1 to the consolidated financial statements which indicates that, as of December 31, 2012, the Group's current liabilities exceeded its current assets by approximately HK\$861,748,000. In addition, the Group had other commitments contracted for but not provided in the consolidated financial statements of approximately HK\$1,028,517,000 as disclosed in note 30 to the consolidated financial statements. The Group is taking several measures as disclosed in note 1 to the consolidated financial statements, certain of which have already been implemented, to improve the financial position of the Group and after taking into account these steps, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due. The consolidated financial statements do not include any adjustments that would result from a failure to implement such measures as disclosed in note 1 to the consolidated financial statements.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

March 18, 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Revenue	8	692,760	983,785
Cost of sales		(429,980)	(626,734)
Gross profit		262,780	357,051
Other income and gains	8	53,587	27,996
Selling expenses		(34,470)	(39,942)
Administrative expenses		(99,233)	(104,434)
Finance costs	9	—	—
Profit from operation before changes in fair value of investment properties and conversion option derivative		182,664	240,671
Changes in fair value of investment properties		2,089,534	2,385,228
Changes in fair value of conversion option derivative		26,456	—
Profit before tax		2,298,654	2,625,899
Income tax expense	10	(541,915)	(626,460)
Profit for the year attributable to the owners of the Company	11	1,756,739	1,999,439
Other comprehensive income			
Exchange differences arising on translation		649,121	1,441,742
Total comprehensive income for the year attributable to the owners of the Company		2,405,860	3,441,181
Earnings per share			
— Basic (HK dollar)	14	0.97	1.11
— Diluted (HK dollar)	14	0.86	1.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Property, plant and equipment	15	327,644	283,852
Prepaid lease payments	16	161,652	163,707
Investment properties	17	55,281,545	51,963,171
		55,770,841	52,410,730
Current assets			
Properties under development for sales	18	3,595,693	3,601,495
Properties held for sales	19	463,239	447,258
Trade and other receivables, deposits and prepayments	20	365,002	325,220
Tax recoverable		18,181	18,145
Pledged bank deposits	21	421,436	72,207
Bank balances and cash	21	48,771	1,192,134
		4,912,322	5,656,459
Current liabilities			
Deposits received on sales of properties	22	1,146,923	1,706,686
Construction costs accruals		465,245	576,456
Other payables and accruals		154,768	111,982
Amount due to a shareholder	23	103,559	1,456,696
Tax payable		755,907	679,895
Borrowings — due within one year	24	3,147,668	988,583
		5,774,070	5,520,298
Net current (liabilities) assets		(861,748)	136,161
Total assets less current liabilities		54,909,093	52,546,891

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Non-current liabilities			
Borrowings — due after one year	24	577,181	2,716,642
Fixed rate senior notes	25	795,529	791,966
Convertible note	26	270,323	—
Conversion option derivative	26	244,844	—
Deferred tax liabilities	27	11,655,603	10,953,515
Loan from a shareholder	23	1,056,000	350,000
		14,599,480	14,812,123
Net assets		40,309,613	37,734,768
Capital and reserves			
Share capital	28	180,907	180,907
Share premium and reserves		40,128,706	37,553,861
Total equity		40,309,613	37,734,768

The consolidated financial statements on pages 33 to 97 were approved and authorized for issue by the board of directors on March 18, 2013 and are signed on its behalf by:

Dr. Wang Shih Chang, George

DIRECTOR

Wong Sai Chung

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012

Attributable to owners of the Company											
	Share capital	Share premium	Revaluation reserve	Special reserve	Other reserve	General reserve	Shareholder contribution reserve	Share option reserve	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note a)	(Note b)	(Note c)	(Note d)	(Note 33)			
At January 1, 2011	180,907	1,378,443	6,410	778,662	2,455,562	53,015	—	—	3,331,718	26,101,303	34,286,020
Profit for the year	—	—	—	—	—	—	—	—	—	1,999,439	1,999,439
Other comprehensive income for the year	—	—	—	—	—	—	—	—	1,441,742	—	1,441,742
Total comprehensive income for the year	—	—	—	—	—	—	—	—	1,441,742	1,999,439	3,441,181
Recognition of share-based payment	—	—	—	—	—	—	—	7,567	—	—	7,567
At December 31, 2011	180,907	1,378,443	6,410	778,662	2,455,562	53,015	—	7,567	4,773,460	28,100,742	37,734,768
Profit for the year	—	—	—	—	—	—	—	—	—	1,756,739	1,756,739
Other comprehensive income for the year	—	—	—	—	—	—	—	—	649,121	—	649,121
Total comprehensive income for the year	—	—	—	—	—	—	—	—	649,121	1,756,739	2,405,860
Recognition of share-based payment	—	—	—	—	—	—	—	7,936	—	—	7,936
Deemed contribution	—	—	—	—	—	—	161,049	—	—	—	161,049
At December 31, 2012	180,907	1,378,443	6,410	778,662	2,455,562	53,015	161,049	15,503	5,422,581	29,857,481	40,309,613

Notes:

- (a) Special reserve represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the corporate reorganisation ("Corporate Reorganisation") to rationalise the Group structure prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.
- (b) Other reserve arose from the acquisition by Mr. Wong Sai Chung ("Mr. Wong"), the ultimate controlling shareholder of the Company, of the interests in the Company's subsidiaries owned by other shareholders and the implementation of the Corporate Reorganisation.
- (c) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the subsidiaries established in the PRC may make an allocation to the general reserve from its profit for the year (prepared under the generally accepted accounting principles in the PRC) at a rate determined by directors of the relevant subsidiaries. The general reserve can only be used upon approval by the board of directors of the relevant subsidiaries to offset accumulated losses or increase capital.
- (d) Shareholder contribution reserve represents the deemed contribution arising from a loan from a shareholder, Mr. Wong, amounted to HK\$500,000,000, which is interest free, unsecured and repayable after one year from the borrowing date. The details of the loan from a shareholder are set out in note 23.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	2012	2011
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Profit before tax	2,298,654	2,625,899
Adjustments for:		
Amortization of prepaid lease payments	54	53
Depreciation of property, plant and equipment	2,566	2,890
Share-based payment expenses	7,936	7,567
Changes in fair value of investment properties	(2,089,534)	(2,385,228)
Changes in fair value of conversion option derivative	(26,456)	—
Interest income	(3,131)	(4,830)
Gain on disposal of investment properties	(36,447)	—
Loss on disposal of property, plant and equipment	49	143
Operating cash flows before movements in working capital	153,691	246,494
Increase in properties under development for sales	(305,431)	(718,837)
Decrease in properties held for sales	417,227	618,891
Decrease in trade and other receivables, deposits and prepayments	11,454	6,343
Decrease in deposits received on sales of properties	(580,784)	(695,698)
(Decrease) increase in construction costs accruals	(119,180)	122,932
Increase (decrease) in other payables and accruals	41,353	(45,971)
Cash used in operations	(381,670)	(465,846)
PRC taxes paid	(3,979)	(63,779)
NET CASH USED IN OPERATING ACTIVITIES	(385,649)	(529,625)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(7,037)	(13,774)
Additions to investment properties	(82,744)	(250,658)
Proceed received from disposal of property, plant and equipment	280	—
Proceed received from disposal of investment properties	64,953	—
Withdrawal of pledged bank deposits	175,073	2,412
Placement of pledged bank deposits	(523,483)	(60,753)
Interest received	3,131	4,830
NET CASH USED IN INVESTING ACTIVITIES	(369,827)	(317,943)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	2012	2011
	HK\$'000	HK\$'000
FINANCING ACTIVITIES		
Interest paid	(312,212)	(303,297)
New borrowings raised	1,011,454	226,149
Repayments of borrowings	(1,032,581)	(306,597)
Repayment to a shareholder	(538,888)	—
Advance from a shareholder	500,000	1,596,383
Loan raised expenses	(21,918)	(5,643)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(394,145)	1,206,995
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,149,621)	359,427
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,192,134	796,730
Effect of foreign exchange rate changes	6,258	35,977
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	48,771	1,192,134

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company is a public limited company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Hillwealth Holdings Limited ("Hillwealth"), a limited company incorporated in the British Virgin Islands ("BVI"). Its ultimate controlling party is Mr. Wong Sai Chung ("Mr. Wong"). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

The Company acts as an investment holding company. The subsidiaries of the Company are principally engaged in property development and property investment in the People's Republic of China (the "PRC"). The principal activities of its principal subsidiaries are set out in note 35.

The functional currency of the Company and the respective group entities is Renminbi ("RMB"), the currency of the primary economic environment in which the Group operates. For the purpose of the consolidated financial statements and convenience of the financial statements users, the results and financial position of the Group are expressed in Hong Kong dollars ("HK\$"), the presentation currency for the consolidated financial statements.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that, as at December 31, 2012, the Group's current liabilities exceeded its current assets by approximately HK\$861,748,000 and the Group had other commitments contracted for but not provided in the consolidated financial statements of approximately HK\$1,028,517,000 as stated in note 30.

In order to improve the Group's financial position, to provide liquidity and cash flows and to sustain the Group as a going concern, the Group has implemented the following measures:

- (1) The Group is planning to obtain new long term fundings and borrowings from the capital market and banks of approximately HK\$7,463,336,000. At the date of approval of these consolidated financial statements, the Group has successfully raised new other borrowings of HK\$497,141,000.
- (2) The Group has committed marketing plan to stimulate sales of its properties held for sales and pre-sales of properties under development for sales.

The directors of the Company consider that after taking into account the above measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following new or revised amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKAS 12	Deferred tax: Recovery of underlying assets
Amendments to HKFRS 7	Financial instruments: Disclosures — Transfers of financial assets

Amendments to HKAS 12 Deferred tax: Recovery of underlying assets

The Group has applied for the first time the amendments to HKAS 12 “Deferred tax: Recovery of underlying assets” in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment property” are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The amendments to HKAS 12 have to be applied retrospectively.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors of the Company reviewed the Group’s investment property portfolios and concluded that the Group has a business model for its investment properties whose objective is to hold most of the investment properties so as to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred taxation in relation to the Group’s investment properties, has been measured based on the tax consequences of recovering the carrying amounts entirely through use.

As the Group has previously recognized deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use, the directors of the Company considered that the application of the above amendments has had no material impact on these consolidated financial statements.

Amendments to HKFRS 7 Financial instruments: Disclosures — Transfer of financial assets

The Group has applied for the first time the amendments to HKFRS 7 “Financial instruments: Disclosures — Transfer of financial assets” in the current year. The amendments increase the disclosure requirements for transactions involving transfers of financial assets in order to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the year. Based on an analysis of the financial instruments held by the Group as at December 31, 2012, the directors of the Company considered that the application of the above amendments has had no material impact on these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — continued

The Group has not early applied the following new or revised standards, amendments and interpretation that have been issued but are not yet effective:

HKAS 1 (Amendments)	Presentation of items of other comprehensive income ¹
HKAS 19 (Revised 2011)	Employee benefits ²
HKAS 27 (Revised 2011)	Separate financial statements ²
HKAS 28 (Revised 2011)	Investments in associates and joint ventures ²
HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities ³
HKFRSs (Amendments)	Annual improvements to HKFRSs 2009–2011 cycle ²
HKFRS 1 (Amendments)	Government loans ²
HKFRS 7 (Amendments)	Disclosures — Offsetting financial assets and financial liabilities ²
HKFRS 9	Financial instruments ⁴
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures ⁴
HKFRS 10	Consolidated financial statements ²
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance ²
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment entities ³
HKFRS 11	Joint arrangements ²
HKFRS 12	Disclosure of interests in other entities ²
HKFRS 13	Fair value measurement ²
HK(IFRIC) — INT 20	Stripping costs in the production phase of a surface mine ²

¹ Effective for annual periods beginning on or after July 1, 2012.

² Effective for annual periods beginning on or after January 1, 2013.

³ Effective for annual periods beginning on or after January 1, 2014.

⁴ Effective for annual periods beginning on or after January 1, 2015.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) — continued

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 “Presentation of items of other comprehensive income” introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a “statement of comprehensive income” is renamed as a “statement of profit or loss and other comprehensive income”. In addition, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods. Other than the above mentioned presentation changes, the directors of the Company anticipate that the application of the amendments to HKAS 1 will not result in any material impact on the consolidated financial statements.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 requires all recognized financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted. The directors of the Company anticipate that the adoption of HKFRS 9 in the future will not have a significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities based on an analysis of the financial instruments held by the Group as at December 31, 2012.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) — continued

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The directors of the Company anticipate that HKFRS 13 will be adopted in the Group’s consolidated financial statements for the annual period beginning January 1, 2013 and that the application may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Other than as disclosed above, the directors of the Company anticipate that the other new and revised standards, amendments and interpretation will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values at the end of each reporting period as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value at consideration received or receivable.

Revenue from sale of properties and pre-completion contracts for the sale of development properties in the ordinary course of business is recognized when all of the following criteria are satisfied:

- the significant risks and rewards of ownership of the properties are transferred to purchasers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The above criteria are met when the construction of relevant properties has been completed, and the title of properties has been transferred or the properties have been delivered to the purchasers pursuant to the sales agreement whichever is earlier and the collectibility of related receivables is reasonably assumed. Deposits and instalments received from purchasers on properties sold prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Rental income from properties under operating leases is recognized in the consolidated statement of comprehensive income on a straight-line basis over the term of the relevant leases.

Service income is recognized when services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Revenue recognition — continued

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortized on a straight-line basis over the lease term. During the construction period, the amortization charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Properties under development for sales

Properties under development for sales are stated at the lower of cost and net realizable value. Cost comprises both the prepaid lease payments for the land and development cost for the property. Net realizable value takes into account the price ultimately expected to be realized, less applicable selling expenses and the anticipated costs to completion.

Development cost of property comprises construction costs, borrowing costs capitalized according to the Group's accounting policy and directly attributable cost incurred during the development period. On completion, the properties are transferred to properties held for sales.

Properties held for sales

Properties held for sales are stated at the lower of cost and net realizable value.

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Financial assets — continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. They are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable or another receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Financial assets — continued

Impairment of financial assets — continued

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Financial liabilities and equity instruments — continued

Financial liabilities at FVTPL

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value at the end of the reporting period, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities, other than convertible note and conversion option derivative (see accounting policy below), including borrowings, construction costs accruals, other payables and accruals, amount due to/loan from a shareholder and fixed rate senior notes are subsequently measured at amortized cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Convertible note and conversion option derivative

Convertible note issued by the Group that contains both liability and conversion option components is classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognized at fair value.

In subsequent periods, the liability component of the convertible note is carried at amortized cost using the effective interest method. The conversion option derivative together with other embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible note using the effective interest method.

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Impairment losses on assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Borrowing costs — continued

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary 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. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference 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, 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 each 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Taxation — continued

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property 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. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at that date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Retirement benefit costs

Payments to the defined contribution retirement benefit schemes and state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured. The fair values of the services received are recognized as expenses on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets. If the fair value of the services received cannot be estimated reliably, the Group shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of equity instruments granted.

**4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION
UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimate is recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgment in applying accounting policies

The following is the critical judgment that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that substantially all of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. Accordingly, deferred taxation in relation to the Group's investment properties has been measured based on the tax consequences of recovering the carrying amounts entirely through use.

**4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION
UNCERTAINTY — continued**

Key sources of estimation uncertainty

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

Estimate of fair value of investment properties under construction

As described in note 17, investment properties under construction are mainly measured at fair value at the end of the reporting period using a residual method by independent professional valuers. Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation reflect market condition. Where there are any changes in the assumptions due to the market conditions in the PRC, the estimate of fair value of investment properties under construction may be significantly affected. In making the valuation, the Group's management has made reference to the recent market condition. As at December 31, 2012, investment properties under construction of approximately HK\$45,623,771,000 (2011: HK\$42,513,871,000) are revalued using a residual method.

Estimate of fair value of conversion option derivative

As described in note 26, the directors of the Company engaged an independent valuer who applied appropriate valuation technique for conversion option derivative that is not quoted in an active market. The conversion option derivative was valued using the binomial option pricing model that incorporated market data and involved uncertainty in estimates in the assumptions. Because binomial option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions used are disclosed in note 26. As at December 31, 2012, the carrying amount of conversion option derivative is approximately HK\$244,844,000. The directors believe that the chosen valuation technique and assumptions are appropriate in determining the fair value of the conversion option derivative.

Estimate of net realizable value of properties under development for sales and properties held for sales

As at December 31, 2012, properties under development for sales of approximately HK\$3,595,693,000 (2011: HK\$3,601,495,000) and properties held for sales of approximately HK\$463,239,000 (2011: HK\$447,258,000) are stated at lower of cost and net realizable value. Cost of each unit in each phase of development is determined using the weighted average method. The estimated net realizable value is estimated selling price less selling expenses and estimated cost of completion (if any), which are estimated based on best available information. Where there are any decrease in the estimated selling price arising from any changes to the market conditions in the PRC, there may be impairment loss recognized on the properties under development for sales and properties held for sales.

**4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION
UNCERTAINTY — continued**

Key sources of estimation uncertainty — continued

Land appreciation taxes

PRC land appreciation tax ("LAT") 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 land costs, borrowing costs and all property development expenditure.

The Group is subject to LAT in the PRC which has been included in income tax expense of the Group. Significant judgment is required in determining the amount of land appreciation and the related taxes. The Group recognizes these liabilities based on the management's best estimates. Where the final outcome of this matter is different from the amounts that were initially recorded, such differences will impact the income tax expense in the period in which such determination is made. As at December 31, 2012, the Group has LAT payable of approximately HK\$692,501,000 (2011: HK\$636,130,000).

Provision for legal disputes and contingent liabilities under construction contracts

As at December 31, 2012, the Group is subjected to several legal claims with aggregate amount of approximately HK\$360 million in relation to disputes under construction contracts in the properties development operation during the normal course of business. Determining whether provision for construction costs in dispute is necessary requires an estimation of probability that an outflow of resources embodying economic benefits to be required for settling the obligation and an estimation of the amount of the obligation which can be measured reliably at the end of the reporting period. Based on the advices from the independent legal advisors, those outstanding legal claims are still in preliminary stage and the final outcome is unable to be determined at this stage. In the opinion of the directors of the Company, the Group has possible obligation in relation to the legal disputes; however, a sufficiently reliable estimate of the amount of the obligation cannot be made at the end of the reporting period. Disclosure of such contingent liabilities has been made in note 29 to the consolidated financial statements. No amount has been included in construction costs accruals nor provision made in the consolidated financial statements in respect of these construction contract in disputes.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the amount due to/loan from a shareholder, borrowings, fixed rate senior notes and convertible note disclosed in notes 23, 24, 25 and 26 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payments of dividends, new share issues, shares buy-backs and issue of new debts or redemption of existing debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012	2011
	HK\$'000	HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	487,388	1,279,568
Financial liabilities		
Financial liabilities classified as at FVTPL	244,844	—
Amortized cost	6,570,273	6,992,325

Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, construction costs accruals, other payables and accruals, amount due to/loan from a shareholder, borrowings, fixed rate senior notes, convertible note and conversion option derivative. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The Group's transactions are mainly denominated in RMB (which is the functional currency of respective group entities), except for certain bank balances, borrowings, fixed rate senior notes, convertible note and conversion option derivative which are denominated in HK\$ and United States dollars ("USD") as disclosed below. The Group has not used any forward contract to hedge its exposure to currency risk. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. A significant depreciation/appreciation in the RMB against USD and HK\$ may have a material impact on the Group's results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Market risk — continued

Foreign currency risk — continued

As at the end of each reporting period, certain financial assets and financial liabilities of the Group were denominated in HK\$ and USD which are the currencies other than the functional currency of the relevant group entities. The carrying amounts of those foreign currency monetary items are set out below:

	HK\$		USD	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Pledged bank deposits	—	—	334,270	—
Bank balances and cash	47,422	105	46	39
Borrowings	—	—	1,075,620	1,382,940
Fixed rate senior notes	—	—	795,529	791,966
Convertible note	270,323	—	—	—

Sensitivity analysis

The Group is mainly exposed to the currency of HK\$ and USD and the sensitivity analysis includes only outstanding foreign currency denominated monetary items and their translation at the year end for a 5% (2011: 5%) change in foreign currency rates. 5% (2011: 5%) is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates.

A positive number below indicates an increase in post-tax profit for the year where RMB strengthens 5% against USD and HK\$ for the current year. For a 5% weakening of RMB against USD and HK\$, there would be an equal but opposite impact on the post-tax profit for the year.

	HK\$ impact		USD impact	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Profit for the year	11,145	(5)	76,842	108,743

6. FINANCIAL INSTRUMENTS — continued

Market risk — continued

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 24 for details). The Group currently does not have any interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits, other borrowings (see note 24 for details), fixed rate senior notes (see note 25 for details) and convertible note (see note 26 for details). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. In addition, the management monitors the interest rate movement for long term borrowings and will consider to exercise the redemption option of the fixed rate senior notes if necessary.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 1% (2011: 1%) increase or decrease is used in management's assessment of the reasonably possible change in interest rates.

If interest rates relating to the variable-rate borrowings of the Group increase or decrease by 1%, finance costs would increase or decrease by approximately HK\$30,935,000 (2011: HK\$37,052,000). Since all the Group's finance costs had been capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales, there would be no effect on the Group's post-tax profit for the year.

Other price risk

The Group is required to estimate the fair value of the conversion option derivative embedded in the convertible note at the end of the reporting date with changes in fair value to be recognized in the consolidated statement of comprehensive income as long as the convertible note is outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

6. FINANCIAL INSTRUMENTS — continued

Market risk — continued

Other price risk — continued

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk and volatility risk arising from conversion option derivative at the end of the reporting period only as the directors of the Company consider that the change in market interest rate may not have significant financial impact on the fair value of conversion option derivative.

(i) Changes in share price

If the Company's share price had been 5% higher/lower and all other variables were held constant, the Group's post-tax profit for the year (as a result of changes in fair value of conversion option derivative) would decrease/increase by HK\$24,083,000 (2011: nil).

(ii) Changes in volatility

If the volatility of the Company's share price had been 5% higher/lower while all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2012 (as a result of changes in fair value of conversion option derivative) would decrease/increase by approximately HK\$14,968,000 (2011: nil).

Liquidity risk

The Group is exposed to significant liquidity risk as at December 31, 2012, as it has net current liabilities of approximately HK\$861,748,000. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The management closely monitors its liquidity risk through the steps set out in note 1. Accordingly, the directors of the Company considered that the Group's liquidity risk is properly addressed and therefore prepared the consolidated financial statements on a going concern basis.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specially, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amounts are derived from interest rate curve at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Liquidity risk — continued

Liquidity tables

	Weighted average interest rate	On demand or less than 1 year HK\$'000	Between 1–2 years HK\$'000	Between 2–5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at December 31, 2012							
Construction costs accruals	N/A	465,245	—	—	—	465,245	465,245
Other payables and accruals	N/A	154,768	—	—	—	154,768	154,768
Amount due to a shareholder	N/A	103,559	—	—	—	103,559	103,559
Loan from a shareholder	12%	—	1,200,000	—	—	1,200,000	1,056,000
Borrowings — variable rate	6.129%	3,101,453	81,542	—	—	3,182,995	3,093,480
Borrowings — fixed rate	20.424%	212,498	541,676	—	—	754,174	631,369
Fixed rate senior notes	9.125%	73,029	825,474	—	—	898,503	795,529
Convertible note (Note)	5%	—	50,000	75,000	540,167	665,167	515,167
Financial guarantee contracts	N/A	1,386,417	—	—	—	1,386,417	—
		5,496,959	2,698,692	75,000	540,167	8,810,828	6,815,117
As at December 31, 2011							
Construction costs accruals	N/A	576,456	—	—	—	576,456	576,456
Other payables and accruals	N/A	111,982	—	—	—	111,982	111,982
Amount due to/loan from a shareholder	N/A	1,456,696	—	—	—	1,456,696	1,456,696
Loan from a shareholder	N/A	—	350,000	—	—	350,000	350,000
Borrowings — variable rate	6.242%	1,208,231	2,704,827	107,945	—	4,021,003	3,705,225
Fixed rate senior notes	9.125%	73,029	73,029	825,474	—	971,532	791,966
Financial guarantee contracts	N/A	1,917,608	—	—	—	1,917,608	—
		5,344,002	3,127,856	933,419	—	9,405,277	6,992,325

Note: As at December 31, 2012, the carrying amount represents the total carrying amounts of the convertible note and conversion option derivative of approximately HK\$270,323,000 and HK\$244,844,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Liquidity risk — continued

Liquidity tables — continued

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Credit risk

As at December 31, 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 29.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

For properties that are still under construction, the Group typically provides guarantees to banks in connection with its customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. Such guarantees will expire upon the completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstance, the Group is able to retain the customer's deposit and sell the property to recover any amount paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Fair value

The fair values of financial assets and financial liabilities (excluding convertible option derivative) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair value of convertible option derivative is estimated using binomial option pricing model. It is grouped as level 3, the fair value measurements are those derived from valuation techniques that include inputs for the liability that are not based on observable market data (unobservable inputs).

Reconciliation of level 3 fair value measurements of financial liabilities

	Conversion option derivative HK\$'000
At date of issue	271,300
Gain arising on changes in fair value	(26,456)
At December 31, 2012	244,844

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

7. SEGMENT INFORMATION

The Company's Chief Executive Officer is the chief operating decision maker. The Group is principally operating in two operating locations and engaged in three principal business activities. Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the operating locations of each principal business activity. The principal locations are Shanghai and Chongqing in the PRC. The Group's operating segments under HKFRS 8 are therefore as follows:

Property development (developing and selling of properties) — Shanghai
— Chongqing

Property investment (leasing of investment properties) — Shanghai
— Chongqing

Others (hotel operation, provision of building management and construction consultancy service)

Information regarding the above segments is presented below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the year ended December 31, 2012

	Property development		Property investment		Others HK\$'000	Total HK\$'000
	Shanghai	Chongqing	Shanghai	Chongqing		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Revenue						
External sales	628	673,286	15,999	—	2,847	692,760
Segment profit (loss)	226	242,807	1,783,285	326,869	(8,887)	2,344,300
Other income and gains						53,587
Unallocated expenses						(99,233)
Profit before tax						2,298,654

For the year ended December 31, 2011

	Property development		Property investment		Others HK\$'000	Total HK\$'000
	Shanghai	Chongqing	Shanghai	Chongqing		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Revenue						
External sales	24,181	936,744	20,825	—	2,035	983,785
Segment profit (loss)	10,311	289,124	1,793,530	613,457	(4,085)	2,702,337
Other income and gains						27,996
Unallocated expenses						(104,434)
Profit before tax						2,625,899

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by (loss incurred from) each segment including the changes in fair value of investment properties, changes in fair value of conversion option derivative and selling expenses without allocation of other income and gains, administrative expenses including share-based payment expenses and directors' salaries. This is the measure reported to the Company's Chief Executive Officer for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment which is also the information presented to the Company's Chief Executive Officer:

	2012 HK\$'000	2011 HK\$'000
Segment assets		
Property development		
— Shanghai	832,909	793,961
— Chongqing	3,228,799	3,257,522
Property investment		
— Shanghai	46,040,002	43,469,855
— Chongqing	9,241,543	8,493,316
Others	427,831	381,839
Segment total	59,771,084	56,396,493
Unallocated assets	912,079	1,670,696
Consolidated assets	60,683,163	58,067,189
Segment liabilities		
Property development		
— Shanghai	374,236	357,196
— Chongqing	2,863,804	3,525,747
Property investment		
— Shanghai	1,217,473	954,760
— Chongqing	2,615,501	1,901,745
Others	114,477	85,671
Segment total	7,185,491	6,825,119
Unallocated liabilities	13,188,059	13,507,302
Consolidated liabilities	20,373,550	20,332,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Segment assets and liabilities — continued

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reporting segments, other than certain property, plant and equipment, certain prepaid lease payments, other receivables, deposits and prepayments, tax recoverable, pledged bank deposits and bank balances and cash which are commonly used among segments or used for corporate operation.
- all liabilities are allocated to operating and reporting segments other than certain construction costs accruals, other payables and accruals, amount due to a shareholder, certain loan from a shareholder and current and deferred tax liabilities which are corporate liabilities that are unallocated either. Borrowings, fixed-rate senior notes, convertible note and certain loan from a shareholder are allocated on a consistent basis with finance costs capitalized. Conversion option derivative is allocated according to the portion of conversion note allocated.

Other segment information

For the year ended December 31, 2012

	Property development		Property investment		Others	Segments' total	Adjustments	Total
	Shanghai	Chongqing	Shanghai	Chongqing				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
							(Note a)	
Amounts included in the measure of segment profit or loss or segment assets:								
Changes in fair value of investment properties	—	—	1,781,111	308,423	—	2,089,534	—	2,089,534
Additions to non-current assets (Note b)	—	—	95,720	295,777	40,470	431,967	2,992	434,959
Depreciation of property, plant and equipment	—	—	—	—	189	189	4,097	4,286
Gain on disposal of investment properties	—	—	—	—	—	—	36,447	36,447
Loss on disposal of property, plant and equipment	—	—	—	—	—	—	49	49
Amortization of prepaid lease payments	—	—	—	—	4,594	4,594	55	4,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Other segment information — continued

For the year ended December 31, 2011

	Property development		Property investment			Segments' total	Adjustments	Total
	Shanghai	Chongqing	Shanghai	Chongqing	Others			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
							(Note a)	
Amounts included in the measure of segment profit or loss or segment assets:								
Changes in fair value of investment properties	—	—	1,771,771	613,457	—	2,385,228	—	2,385,228
Additions to non-current assets (Note b)	—	—	144,907	314,561	38,998	498,466	1,724	500,190
Depreciation of property, plant and equipment	—	—	—	—	72	72	4,541	4,613
Loss on disposal of property, plant and equipment	—	—	—	—	—	—	143	143
Amortization of prepaid lease payments	—	—	—	—	4,509	4,509	53	4,562

Notes:

- (a) All amounts included in the measure of segment profit or loss or segment assets are allocated to operating segments other than certain additions to non-current assets, depreciation of property, plant and equipment, gain on disposal of investment properties, loss on disposal of property, plant and equipment and amortization of prepaid lease payments which are related to unallocated assets commonly used between segments or used for corporate operation.
- (b) Non-current assets include the investment properties, property, plant and equipment and prepaid lease payments.

Geographical information

All revenue of the Group are derived from operations in the PRC.

Non-current assets of the Group are mainly located in the PRC (group entity's country of domicile).

Information about major customer

For the years ended December 31, 2012 and December 31, 2011, no revenue from a customer of the corresponding year contributing over 10% of the total revenue of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. REVENUE AND OTHER INCOME AND GAINS

	2012 HK\$'000	2011 HK\$'000
Revenue		
Sales of residential properties	673,914	960,925
Property rental income	15,999	20,825
Property management income	2,847	2,035
	692,760	983,785
Other income and gains		
Gain on disposal of investment properties	36,447	—
Net exchange gain	10,867	22,191
Interest on bank deposits	3,131	4,830
Others	3,142	975
	53,587	27,996
Total revenue and other income and gains	746,347	1,011,781

9. FINANCE COSTS

	2012 HK\$'000	2011 HK\$'000
Interest on other borrowings wholly repayable within five years	36,584	—
Interest on bank borrowings wholly repayable within five years	224,516	235,131
Effective interest expense on fixed rate senior notes	76,593	77,373
Effective interest expense on convertible note	41,623	—
Effective interest expense on loan from a shareholder	17,049	—
Total finance costs	396,365	312,504
Less: Amount capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	(396,365)	(312,504)
	—	—

Borrowing costs capitalized during the year arose on the specific borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX EXPENSE

	2012	2011
	HK\$'000	HK\$'000
Current tax		
Enterprise income tax in the PRC	22,665	27,747
LAT in the PRC	—	2,406
	22,665	30,153
Deferred tax		
Current year	519,250	596,307
	541,915	626,460

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC group entities is 25% for both years.

Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulations of the PRC on January 27, 1995, all gains arising from transfer of real estate property in the PRC effective from January 1, 1994 are subject to LAT 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 land costs, borrowings costs and all property development expenditures.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years in 2011 and 2012.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2012	2011
	HK\$'000	HK\$'000
Profit before tax	2,298,654	2,625,899
Tax at PRC enterprise income tax rate of 25%	574,664	656,474
Tax effect of expenses not deductible for tax purpose	10,537	11,014
Tax effect of income not taxable for tax purpose	(43,286)	(13,612)
LAT	—	2,406
Income tax effect of LAT	—	(602)
Tax effect of utilization of tax losses previously not recognized	—	(29,220)
Income tax for the year	541,915	626,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. PROFIT FOR THE YEAR

	2012 HK\$'000	2011 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 12)	1,535	1,534
Other staff costs		
— salaries and other benefits	28,897	25,528
— contributions to retirement benefits schemes	5,617	4,269
Total staff costs	36,049	31,331
Less: Amount capitalized in investment properties under construction and properties under development for sales	(9,091)	(11,205)
	26,958	20,126
Share-based payment expenses (included in administrative expenses)	7,936	7,567
Auditor's remuneration	2,472	2,400
Amortization of prepaid lease payments	4,649	4,562
Less: Amount capitalized in construction in progress under property, plant and equipment	(4,595)	(4,509)
	54	53
Depreciation of property, plant and equipment	4,286	4,613
Less: Amount capitalized in construction in progress under property, plant and equipment	(1,720)	(1,723)
	2,566	2,890
Loss on disposal of property, plant and equipment	49	143
Cost of properties sold (included in cost of sales)	417,223	620,033
Compensation paid to purchasers to re-schedule delivery of properties	16,671	13,903
Gross rental income from investment properties	(15,999)	(20,825)
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	1,039	610
	(14,960)	(20,215)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's emoluments

	2012 HK\$'000	2011 HK\$'000
Fees	1,259	1,258
Salaries and allowances	276	276
	1,535	1,534

The emoluments paid to the directors and chief executive were as follows:

For the year ended December 31, 2012

	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Executive directors:				
Dr. Wang Shih Chang, George	—	—	—	—
Mr. Wong (Note)	—	—	—	—
Mr. Xu Li Chang	—	276	—	276
	—	276	—	276
Non-executive director:				
Mr. Kwan Kai Cheong	240	—	—	240
Independent non-executive directors:				
Mr. Warren Talbot Beckwith	240	—	—	240
Mr. Cheng Chaun Kwan, Michael	240	—	—	240
Mr. Luk Koon Hoo	240	—	—	240
Mr. Garry Alides Willinge	240	—	—	240
Mr. Wu Zhi Gao	59	—	—	59
	1,019	—	—	1,019
	1,259	276	—	1,535

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS — continued

Directors' and chief executive's emoluments — continued

For the year ended December 31, 2011

	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Executive directors:				
Dr. Wang Shih Chang, George	—	—	—	—
Mr. Wong (Note)	—	—	—	—
Mr. Xu Li Chang	—	276	—	276
	—	276	—	276
Non-executive director:				
Mr. Kwan Kai Cheong	240	—	—	240
Independent non-executive directors:				
Mr. Warren Talbot Beckwith	240	—	—	240
Mr. Cheng Chaun Kwan, Michael	240	—	—	240
Mr. Luk Koon Hoo	240	—	—	240
Mr. Garry Alides Willinge	240	—	—	240
Mr. Wu Zhi Gao	58	—	—	58
	1,018	—	—	1,018
	1,258	276	—	1,534

Note: Mr. Wong is also the chief executive of the Company and no emoluments disclosed for his services rendered by him as the chief executive was provided by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS — continued

Employees' emoluments

The emoluments for the five individuals with the highest emoluments in the Group did not include any director and chief executive of the Company for both years, details of whose emoluments are set out above. The emoluments of the five highest paid individuals (2011: five) were as follows:

	2012 HK\$'000	2011 HK\$'000
Salaries and allowances	4,131	4,140
Retirement benefits scheme contributions	106	97
	4,237	4,237

Their emoluments were within the following bands:

	2012 Number of employees	2011 Number of employees
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	2	2
	5	5

During both years, no remuneration was paid by the Group to any of the directors and chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and chief executive waived any remuneration during both years.

13. DIVIDENDS

No dividend was paid or declared during 2012 and 2011, nor has any dividend been proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2012	2011
	HK\$'000	HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	1,756,739	1,999,439
Effect of dilutive potential ordinary shares:		
— Change in fair value of conversion option derivative	(26,456)	—
— Effective interest expense on convertible note (net of income tax) (Note)	—	—
Earnings for the purpose of diluted earnings per share	1,730,283	1,999,439
<hr/>		
	2012	2011
	'000	'000
Number of shares		
Number of ordinary shares in issue during the year for the purpose of basic earnings per share	1,809,077	1,809,077
Effect of dilutive potential ordinary shares:		
— Convertible note	191,934	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,001,011	1,809,077

Note: Since the effective interest expense on convertible note had been capitalised in investment properties under construction and properties under development for sales, there would be no effect on the earnings for the purposes of diluted earnings per share.

The computation of diluted earnings per share for both years did not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price of the shares for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK\$'000 (Note)	Buildings HK\$'000	Leasehold improvements HK\$'000	Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST							
At January 1, 2011	63,062	20,745	48	11,287	11,493	167,216	273,851
Exchange adjustments	2,468	830	2	447	441	6,952	11,140
Additions	—	1,231	—	909	—	38,582	40,722
Disposals	—	—	—	(571)	—	—	(571)
At December 31, 2011	65,530	22,806	50	12,072	11,934	212,750	325,142
Exchange adjustments	1,059	369	1	194	159	3,839	5,621
Additions	—	—	—	494	2,782	40,186	43,462
Disposals	—	—	—	—	(2,837)	—	(2,837)
At December 31, 2012	66,589	23,175	51	12,760	12,038	256,775	371,388
DEPRECIATION							
At January 1, 2011	12,612	6,221	48	8,412	8,362	—	35,655
Exchange adjustments	516	257	2	323	352	—	1,450
Provided for the year	1,616	998	—	765	1,234	—	4,613
Disposals	—	—	—	(428)	—	—	(428)
At December 31, 2011	14,744	7,476	50	9,072	9,948	—	41,290
Exchange adjustments	257	132	1	150	136	—	676
Provided for the year	1,646	1,058	—	729	853	—	4,286
Disposals	—	—	—	—	(2,508)	—	(2,508)
At December 31, 2012	16,647	8,666	51	9,951	8,429	—	43,744
CARRYING VALUES							
At December 31, 2012	49,942	14,509	—	2,809	3,609	256,775	327,644
At December 31, 2011	50,786	15,330	—	3,000	1,986	212,750	283,852

Note: On initial recognition, the leasehold land was classified as investment properties carried at fair value. The leasehold land was subsequently transferred to property, plant and equipment during the year ended December 31, 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT — continued

The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the lease terms
Buildings	Shorter of lease terms and 4.5%
Office equipment, furniture and fixtures, and motor vehicles	18%–19%
Leasehold improvements	Shorter of the remaining term of the land lease on which the buildings are located and 4.5%

Certain of the Group's leasehold land, buildings and construction in progress with a carrying value of approximately HK\$24,486,000 (2011: HK\$24,900,000), HK\$6,391,000 (2011: Nil) and HK\$139,184,000 (2011: HK\$63,117,000) respectively were pledged to secure certain borrowing facilities granted to the Group.

The leasehold land and buildings are located in the PRC under medium-term lease.

16. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments comprises land use rights in the PRC as follows:

	2012	2011
	HK\$'000	HK\$'000
Long lease	617	662
Medium-term lease	161,035	163,045
	161,652	163,707

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES

	2012 HK\$'000	2011 HK\$'000
FAIR VALUE		
Completed properties held for rental purpose (Note a)		
At the beginning of the year	3,064,922	2,865,749
Exchange adjustments	48,879	109,817
Disposals	(28,506)	—
Net changes in fair value recognized in profit or loss	(28,316)	89,356
At the end of the year	3,056,979	3,064,922
Leasehold land under and held for construction of properties for rental purpose and investment properties under construction		
At the beginning of the year	45,240,414	41,270,301
Exchange adjustments	758,033	1,647,431
Additions	9,439	26,810
Transfer from investment properties under construction	268,634	—
Net changes in fair value recognized in profit or loss	2,117,850	2,295,872
At the end of the year	48,394,370	45,240,414
Sub-total	51,451,349	48,305,336
COST		
Investment properties under construction (Note b)		
At the beginning of the year	3,657,835	3,099,445
Exchange adjustments	58,937	125,732
Transfer to leasehold land under and held for construction of properties for rental purpose and investment properties under construction	(268,634)	—
Additions	382,058	432,658
At the end of the year	3,830,196	3,657,835
Total	55,281,545	51,963,171

Notes:

- (a) As at December 31, 2012, included in the Group's completed properties held for rental purpose balance are properties in Shanghai, namely, Phase 1 of Shanghai Concord City with carrying amount of approximately HK\$2,550,311,000 (2011: HK\$2,517,074,000); of which around 40% (2011: 40%) is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants.
- (b) The amount represents the construction costs for the building portion of certain investment property projects under construction. Since the fair value of investment properties under construction cannot be measured reliably at the end of the reporting period, the amounts are carried at cost until the fair value becomes reliably measurable. The land portion is measured at fair value and grouped under leasehold land under and held for construction of properties for rental purpose and investment properties under construction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES — continued

The fair values of certain of the Group's investment properties at December 31, 2012 and 2011 were arrived at on the basis of a valuation carried out on those dates by Cushman & Wakefield Valuation Advisory Services (HK) Ltd. ("C&W") in respect of the investment properties situated in Shanghai and Chongqing, the PRC. C&W is an independent qualified professional valuer not connected with the Group, a member of the Institute of Valuers and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The fair values of investment properties in Shanghai and Chongqing as at December 31, 2012 determined by C&W are approximately HK\$42,882,520,000 (2011: HK\$40,447,549,000) and HK\$5,798,230,000 (2011: HK\$5,131,244,000) respectively. For completed investment properties, the valuations have been arrived at using the capitalisation of net income method of valuation, based on the present value of the income to be derived from the properties. For properties which are currently vacant, the valuation was based on capitalisation of the hypothetical and reasonable market rents with a typical lease term. For investment properties under construction, the valuations have been arrived at using the residual approach by making reference to recent sales transactions of completed properties or rental yield as available in the relevant market to determine the potential sales proceeds or rental income of the completed investment properties, less estimated costs to completion and expected developer profit margin. The rental income included in the residual method was principally based on income approach by taking into account the current rents passing and the reversionary income potential of tenancies.

In July 2010, the Group had acquired a piece of land with total consideration of RMB818,450,000 (equivalent to approximately HK\$963,336,000) which is to be developed together with another piece of land already acquired by the Group in prior year and situated next to this new acquisition. As at December 31, 2012 the development plan on this combined land plot has not yet been approved by the relevant government authority. As at December 31, 2012, the fair value of these two pieces of land in Chongqing amounted to approximately HK\$2,770,599,000 (2011: HK\$2,726,543,000) is determined by the directors of the Company with reference to the recent market condition in Chongqing for land transaction.

For investment properties located in Shanghai

For the year ended December 31, 2012, in determining the fair values of the investment properties located in Shanghai, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

- a. Annual growth rate of rental income is ranging from 3% to 6% (2011: ranging from 3% to 6%)
- b. Occupancy rate for the investment properties is ranging from 50% to 98% (2011: ranging from 50% to 98%)
- c. Expected developer profit is ranging from 10% to 20% (2011: ranging from 10% to 20%)
- d. Discount rate is ranging from 4% to 9% (2011: ranging from 4% to 10%)
- e. Rental rate per month per square meter is ranging from HK\$206 to HK\$1,933 (2011: ranging from HK\$197 to HK\$1,766)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing

For the year ended December 31, 2012, in determining the fair values of the investment properties located in Chongqing, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

- a. Annual growth rate of rental income is ranging from 4% to 6% (2011: 4% to 6%)
- b. Occupancy rate for the investment properties is ranging from 60% to 85% (2011: ranging from 60% to 80%)
- c. Expected developer profit is ranging from 25% to 30% (2011: ranging from 25% to 30%)
- d. Discount rate is ranging from 6% to 11% (2011: ranging from 7% to 11%)
- e. Rental rate per month per square meter is ranging from HK\$94 to HK\$991 (2011: ranging from HK\$134 to HK\$950)

The investment properties shown above are situated on leasehold land in the PRC as follows:

	2012	2011
	HK\$'000	HK\$'000
Long lease	6,548,787	6,341,146
Medium-term lease	48,732,758	45,622,025
	55,281,545	51,963,171

As at December 31, 2012, certain of the Group's investment properties under construction carried at cost with a carrying value of approximately HK\$543,649,000 (2011: HK\$708,364,000) were pledged to secure certain borrowing facilities granted to the Group.

As at December 31, 2012, certain of the Group's investment properties (excluding investment properties under construction carried at cost) with a carrying value of approximately HK\$24,284,475,000 (2011: HK\$19,678,096,000) were pledged to secure certain borrowing facilities granted to the Group.

All the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at December 31, 2012, the Group obtained six (2011: four) out of seven (2011: seven) State-owned Land Use Rights Certificates ("Certificates") for Chongqing projects sites. The Group was in the process of obtaining the remaining one (2011: three) Certificates. The carrying amounts of the prepaid lease payments, investment properties and properties under development for sales which relate to this remaining one (2011: three) Certificate amounted to approximately HK\$85,042,000 (2011: HK\$159,516,000), HK\$3,100,663,000 (2011: HK\$7,115,629,000) and HK\$288,238,000 (2011: HK\$535,724,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. PROPERTIES UNDER DEVELOPMENT FOR SALES

	2012 HK\$'000	2011 HK\$'000
Cost		
At the beginning of the year	3,601,495	3,413,031
Exchange adjustments	56,373	133,124
Additions	362,933	801,815
Transfer to properties held for sale	(425,108)	(746,475)
At the end of the year	3,595,693	3,601,495
Properties under development for sales of which:		
— expected to be realized within twelve months	419,344	847,841
— expected to be realized over twelve months	3,176,349	2,753,654
	3,595,693	3,601,495

As at December 31, 2012, certain of the Group's properties under development for sales with a carrying value of approximately HK\$3,297,514,000 (2011: HK\$2,190,914,000) were pledged to secure certain borrowing facilities granted to the Group.

The carrying amount of properties under development for sales are situated on land use rights in the PRC as follows:

	2012 HK\$'000	2011 HK\$'000
Long lease	191,206	185,386
Medium-term lease	3,404,487	3,416,109
	3,595,693	3,601,495

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. PROPERTIES HELD FOR SALES

As at December 31, 2012, certain of the Group's properties held for sales with a carrying value of approximately HK\$302,298,000 (2011: HK\$281,939,000) were pledged to secure certain borrowing facilities granted to the Group.

	2012	2011
	HK\$'000	HK\$'000
<hr/>		
Properties held for sales which		
— expected to be realised within twelve months	185,343	199,929
— expected to be realised within more than twelve months after the end of the reporting period	277,896	247,329
	463,239	447,258
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20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Consideration in respect of completed properties sold are paid in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the agreement date. Consideration in respect of properties sold under pre-sale contracts will be fully received prior to the delivery of the properties to the purchasers.

	2012	2011
	HK\$'000	HK\$'000
<hr/>		
Trade receivables	2,775	2,731
Prepayment of business taxes and other PRC taxes	84,057	131,717
Other receivables, deposits and prepayments	278,170	190,772
	365,002	325,220
<hr/>		

As at December 31, 2012, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$2,775,000 (2011: HK\$2,731,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is over 90 days (2011: over 90 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The following bank deposits have been pledged to secure:

	2012	2011
	HK\$'000	HK\$'000
Bank borrowings of the Group	421,436	70,939
Bank borrowings procured by the purchasers of the Group's properties (Note 29)	—	1,268
	421,436	72,207

At December 31, 2012, pledged bank deposits of approximately HK\$421,436,000 (2011: HK\$72,207,000) were pledged for short term borrowings due within one year and the amount was classified as current.

The pledged bank deposits carry effective interest rates which range from 0.15% to 2.85% (2011: 0.50% to 3.10%) per annum. The pledged bank deposits will be released upon the settlement of the relevant bank borrowings. Bank balances carry interest at market rates which range from 0.01% to 0.35% (2011: 0.01% to 0.50%) per annum.

22. DEPOSITS RECEIVED ON SALES OF PROPERTIES

	2012	2011
	HK\$'000	HK\$'000
Deposits received on sales of properties		
— expected to be realized within twelve months	1,146,923	1,706,686

23. AMOUNT DUE TO/LOAN FROM A SHAREHOLDER

Amount due to a shareholder

Amount due to a shareholder, Mr. Wong, was non-trade in nature, unsecured, interest-free and repayable on demand. On August 14, 2012, an aggregate amount of HK\$500,000,000 has been set off by the issuance of the convertible note (see note 26).

During the year ended December 31, 2012, repayment of approximately HK\$538,888,000 has been made. On December 31, 2012, advance amounted to approximately HK\$350,000,000 ("Advance A") was reclassified as a loan from a shareholder, details are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. AMOUNT DUE TO/LOAN FROM A SHAREHOLDER — continued

Loan from a shareholder

Based on the agreement entered between Mr. Wong and the Company on December 31, 2011, a loan of HK\$350,000,000 (“Loan A”) was provided to the Group by Mr. Wong, which is interest-free, unsecured and repayable after one year from the date of borrowing.

On June 30, 2012, an agreement entered between Mr. Wong and the Company, whereby a loan of HK\$500,000,000 (“Loan B”) is provided by Mr. Wong. This shareholder loan is interest-free, unsecured and repayable after one year from the borrowing date. The fair value of the loan from a shareholder is determined based on the effective interest rate of 6.82% per annum at initial recognition. The difference between the principal amount of the loan of HK\$500,000,000 and the fair value of the loan determined on June 30, 2012 amounted to approximately HK\$34,099,000, which has been credited to equity as deemed contribution from a shareholder.

Pursuant to an agreement entered between Mr. Wong and the Company on December 31, 2012, Mr. Wong agreed not to request settlement within one year from the end of the reporting period of Advance A, Loan A and Loan B previously provided, of total principal amount of HK\$1,200,000,000 (“Loan C”). Loan C is interest-free, unsecured and repayable after one year from the borrowing date. The fair value of Loan C is determined based on the effective interest rate of 12.00% per annum at initial recognition. The difference between the carrying amounts of the advances and loans and the fair value of Loan C determined on December 31, 2012 amounted to approximately HK\$126,950,000, which has been credited to equity as deemed contribution from a shareholder.

24. BORROWINGS

	2012 HK\$'000	2011 HK\$'000
Bank borrowings	3,093,480	3,705,225
Other borrowings	631,369	—
	3,724,849	3,705,225
Carrying amounts of the borrowings repayable based on contractual term [†] :		
Within one year	3,147,668	988,583
More than one year, but not exceeding two years	577,181	2,612,068
More than two years, but not exceeding five years	—	104,574
	3,724,849	3,705,225
Less: Amount due within one year shown under current liabilities	(3,147,668)	(988,583)
Amount shown under non-current liabilities	577,181	2,716,642
Secured	3,662,706	3,705,225
Unsecured	62,143	—
	3,724,849	3,705,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. BORROWINGS — continued

As at December 31, 2012, borrowings of approximately HK\$385,285,000 (2011: Nil) with a "repayable on demand" clause are included in the "On demand or less than 1 year" time band.

[#] The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2012	2011
	HK\$'000	HK\$'000
USD (Note)	1,075,620	1,382,940

Note: As at December 31, 2012, the secured borrowings were secured by the shares of certain subsidiaries of the Company in the PRC.

Bank borrowings

	2012	2011
	HK\$'000	HK\$'000
Carrying amounts of variable-rate bank borrowings repayable based on contractual term ² :		
Within one year	3,013,440	988,583
More than one year, but not exceeding two years	80,040	2,612,068
More than two years, but not exceeding five years	—	104,574
	3,093,480	3,705,225
Less: Amount due within one year shown under current liabilities	(3,013,440)	(988,583)
Amount shown under non-current liabilities	80,040	2,716,642
Secured	3,031,337	3,705,225
Unsecured	62,143	—
	3,093,480	3,705,225

[#] The amounts due are based on scheduled repayment dates set out in the loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. BORROWINGS — continued

Bank borrowings — continued

The interest rates of the Group's variable rate bank borrowings are based on base rate fixed by the People's Bank of China ("PBOC") or London Interbank Offered Rate ("LIBOR") plus a premium. Details are as follows:

	2012	2011
	HK\$'000	HK\$'000
<hr/>		
Base rate fixed by PBOC plus a premium:		
Carrying amounts repayable:		
Within one year	1,937,820	681,263
More than one year, but not exceeding two years	80,040	1,536,448
More than two years, but not exceeding five years	—	104,574
<hr/>		
LIBOR plus a premium:		
Carrying amounts repayable:		
Within one year	1,075,620	307,320
More than one year, but not exceeding two years	—	1,075,620
<hr/>		

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are ranged from 4.89% to 8.40% (2011: 4.80% to 7.98%) per annum.

Other borrowings

	2012	2011
	HK\$'000	HK\$'000
<hr/>		
Carrying amount of the fixed-rate other borrowings repayable based on contractual term ^a :		
Within one year	134,228	—
More than one year, but not exceeding two years	497,141	—
<hr/>		
	631,369	—
Less: Amount due within one year shown under current liabilities	(134,228)	—
<hr/>		
Amount shown under non-current liabilities	497,141	—
<hr/>		

^a The amounts due are based on scheduled repayment dates set out in the loan agreements.

The other borrowings are secured and carrying at fixed interest rate ranging from 12.00% to 36.00% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. FIXED RATE SENIOR NOTES

On April 27, 2007, the Company issued approximately US\$300 million (approximately HK\$2,340,000,000) in aggregate principal amount of the fixed rate senior notes which contain two components, liability and early redemption options.

The notes bear interest at the fixed rate of 9.125% per annum. The interest charged for the year is calculated by applying an effective interest rate of approximately 10.85% (2011: 10.85%) per annum. Interest on the notes is payable on May 4 and November 4 of each year. The notes will mature on May 4, 2014. The notes are guaranteed by certain of the Company's subsidiaries.

At any time before May 4, 2011, the Company may redeem the notes, in whole or in part, at a redemption price equal to 100% of their principal amount plus a premium and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to May 4, 2010, the Company may redeem up to 35% of the principal amount of the notes using net cash proceeds from certain equity offerings at a redemption price of 109.125% of the principal amount of the notes plus accrued and unpaid interest, if any, to the redemption date.

On or after May 4, 2011, the Company may, at its option, redeem all or part of the notes at the redemption prices equals to the percentage of the principal amount set forth below plus accrued and unpaid interest to the redemption date if redeemed during the 12-month period commencing on May 4 of the years indicated below:

12-month period commencing in the year	Percentage
2011	104.56250%
2012	102.28125%
2013 and thereafter	100.00000%

The directors of the Company consider that the fair values of the redemption options at the date of issuance of the notes and at December 31, 2012 and 2011 are insignificant.

During the year ended December 31, 2010, the Group repurchased fixed rate senior notes with the carrying amount of US\$197,395,000 (approximately HK\$1,539,681,000) at the market price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. CONVERTIBLE NOTES

On January 27, 2012, the Company and Hillwealth Holdings Limited (the "Subscriber"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Wong, entered into a conditional subscription agreement pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for a convertible note of HK\$500,000,000 in cash. The convertible note is interest bearing at 5% per annum and matures on the fourth anniversary of the issue date. The conversion price of the convertible note is HK\$2.42 per share.

On February 21, 2012, the Company and the Subscriber entered into a supplemental agreement to extend the maturity date and the period for conversion of the convertible note to the sixth anniversary of the issue date. Both the Company and the Subscriber have no early redemption rights on the convertible note. The Company shall repay the principal amount outstanding under the convertible note to the Subscriber together with all interest accrued on the sixth anniversary of the date of issue of the convertible note.

The issuance of the convertible note has been approved at the extraordinary general meeting of the Company held on March 16, 2012. On March 19, 2012, the Listing Committee of the Stock Exchange conditionally granted the listing of and permission to deal with the conversion shares, subject to (i) approval by the Independent Shareholders of the issue of the convertible note under Rule 13.36 of the Listing Rules and (ii) fulfillment of all other conditions of the subscription agreement. In accordance with the subscription agreement, all of the conditions precedent had been fulfilled on August 14, 2012 and the issue of the convertible note had been agreed between the Company and the Subscriber to fall on August 14, 2012 with settlement against funds previously advanced by Mr. Wong to the Company.

The convertible note is denominated in HK\$ and contain two components, liabilities component and conversion option derivative. The effective interest rate of the liability component is 18.838% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

The fair value of convertible note and conversion option derivative was calculated using the binomial option pricing model by an independent valuer, Asset Appraisal Limited. The inputs into the model are as follows:

	At date of issue	At 31/12/2012
Spot price (HK\$)	2.35	2.44
Exercise price (HK\$)	2.42	2.42
Risk-free rate	0.89%	0.36%
Discount rate	19.53%	16.19%
Volatility	40.998%	30.319%
Dividend yield	0%	0%
Conversion period start date (Note)	December 14, 2013	December 14, 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. CONVERTIBLE NOTES — continued

Note: Pursuant to the subscription agreement and the supplemental agreement, conversion option may be exercised at any time after full repayment of the loan principal and all outstanding accrued interest under the facility agreement to China Development Bank Corporation, Hong Kong Branch or the date falling 36 months from the first date a loan was made under the facility agreement (whichever is earlier). The Subscriber will have the right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time up to the sixth anniversary of the date of inception of the convertible note. Management assumes that the conversion period would be started on December 14, 2013, as full repayment of the loan principal and all outstanding accrued interest would be due and settled on that date.

Expected volatility of the convertible note and conversion option derivative was determined using the historical volatility of the price return of the ordinary shares of comparable companies. Because the binominal option pricing model requires the input of subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The movement of the liability component and conversion option derivative of the convertible note for the year is set out as below:

	Liabilities component	Conversion option derivative	Total
	HK\$'000	HK\$'000	HK\$'000
Carrying amount at date of issue	228,700	271,300	500,000
Interest charge	41,623	—	41,623
Gain arising on changes of fair value	—	(26,456)	(26,456)
As at December 31, 2012	270,323	244,844	515,167

27. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognized and movements thereon during the current and prior years:

	Fair value adjustment of investment properties	Other temporary differences	Total
	HK\$'000	HK\$'000	HK\$'000
At January 1, 2011	9,892,151	66,885	9,959,036
Exchange adjustments	392,738	5,434	398,172
Charge to profit or loss (note 10)	596,307	—	596,307
At December 31, 2011	10,881,196	72,319	10,953,515
Exchange adjustments	181,670	1,168	182,838
Charge to profit or loss (note 10)	519,250	—	519,250
At December 31, 2012	11,582,116	73,487	11,655,603

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. DEFERRED TAX LIABILITIES — continued

Other temporary differences mainly represent the temporary differences arising from the construction costs capitalized in investment properties under construction, properties under development for sales and properties held for sales which were deductible for tax purpose in the year those costs incurred.

The Group had no significant unprovided deferred tax during the two years ended December 31, 2012 and 2011 and at the end of the reporting periods.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately HK\$18,824,999,000 (2011: HK\$17,034,153,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

28. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
<hr/>		
Ordinary shares of HK\$0.1 each		
Authorized:		
At January 1, 2011, December 31, 2011 and December 31, 2012	5,000,000,000	500,000
<hr/>		
Issued and fully paid:		
At January 1, 2011, December 31, 2011 and December 31, 2012	1,809,077,000	180,907
<hr/>		

None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. CONTINGENT LIABILITIES

At the end of the reporting period, the contingent liabilities of the Group were as follows:

Guarantee	2012	2011
	HK\$'000	HK\$'000
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Note)	1,386,417	1,917,608

Note: The guarantees were given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the directors, the fair value of the financial guarantee contracts is not significant. Deposits received on sales of properties prior to the date of revenue recognition are classified as current liabilities in the consolidated statement of financial position.

As at December 31, 2011, certain guarantees were secured by the Group's pledged bank deposits of approximately HK\$1,268,000. There were no guarantees secured by the Group's pledged bank deposits as at December 31, 2012.

Legal disputes

As at December 31, 2012, the Group is subjected to several legal claims with aggregate amount of approximately HK\$360 million in relation to disputes under construction contracts in the properties development operation during the normal course of business. In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that not met the required standards and pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or in the process of making countered claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The net financial effect of both claims and counter-claims is considered insignificant.

Based on the advices from the independent legal advisors, those outstanding legal claims are still in preliminary stage and the final outcome is unable to be determined at this stage. Accordingly no provision is required to be made in the consolidated financial statements. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. OTHER COMMITMENTS

	2012	2011
	HK\$'000	HK\$'000
Construction commitment contracted for but not provided	1,028,517	758,962

31. OPERATING LEASE COMMITMENTS

As lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2012	2011
	HK\$'000	HK\$'000
Within one year	5,386	14,049
In the second to fifth year inclusive	1,599	9,801
	6,985	23,850

Around 40% (2011: 40%) of the Group's investment properties in Shanghai, namely, Phase 1 of Shanghai Concord City is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants. For the Group's marketing strategy, upon the completion of northern portion of Phase 2 of Shanghai Concord City ("Phase 2 North Portion"), the Group will then recruit their target tenants for both Phase 1 of Shanghai Concord City and Phase 2 North Portion. The construction of Phase 2 North Portion is anticipated to be completed in the second half of 2013. The properties generated rental yields of average 0.60% (2011: 0.68%) for the year ended December 31, 2012. Leased properties have committed tenants from one to four (2011: one to five) years.

As lessee

Minimum lease payments paid under operating leases during the year:

	2012	2011
	HK\$'000	HK\$'000
Premises	4,113	3,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. OPERATING LEASE COMMITMENTS — continued

As lessee — continued

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 HK\$'000	2011 HK\$'000
Within one year	4,441	4,113
In the second to fifth year inclusive	2,399	6,511
	6,840	10,624

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and are fixed for an average of three (2011: three) years.

32. RETIREMENT BENEFITS PLANS

The Group operates a MPF Scheme under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made by both the Group and the employees based on 5% of the employees' salaries (capped at HK\$25,000 (increases from HK\$20,000 to HK\$25,000 effective from June 1, 2012)) and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The total contributions incurred in this connection for the year was approximately HK\$5,617,000 (2011: HK\$4,269,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was conditionally adopted pursuant to a resolution passed on February 5, 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Scheme will expire on February 5, 2017.

Under the Scheme, the board of directors of the Company may grant options to directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme is not permitted to exceed 180,000,000 shares, being 10% of the shares of the Company in issue as at the date on which the shares of the Company are listed on the Stock Exchange, which can be refreshed according to the Scheme. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the Scheme shall not exceed 30% of the issued share capital of the Company from time to time.

The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders in accordance with the Scheme. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the shares in the Company issued and to be issued upon exercise of all options to such person in the 12-month period up to and including the date of grant in excess of 0.1% of the shares of the Company in issue and with a value (based on the closing price of the shares of the Company at the offer date of each offer) in excess of HK\$5,000,000, such grant of options must be approved in advance by the Company's shareholders in accordance with the Scheme.

An option may be exercised at any time during the period to be determined and notified by the directors to the grantee and in the absence of such determination, from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses and ten years from the date of offer of that option. A consideration of HK\$1 is payable upon acceptance of the offer.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the share; the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

Pursuant to the announcement dated January 17, 2011 ("Grant Date"), 20,000,000 options (the "Options") to subscribe for the Company's ordinary shares of HK\$0.10 each (the "Shares") with the exercise price of HK\$2.67 each were granted to certain eligible participants (the "Grantees"). The Grantees are consultants which are responsible for the investor relations of the Group. None of the Grantees is a director, chief executive or substantial shareholder of the Company, or any of their respective associates. The option is exercisable from January 17, 2013 to March 22, 2013 ("Exercise Period"). The closing price of the Company's share at Grant Date was HK\$2.64.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. SHARE OPTION SCHEME — continued

In the opinion of the directors of the Company, these share options were granted to the consultants for rendering consultancy services in respect of seeking potential investors to acquire a certain number of the Company's shares on or before January 16, 2013 ("Target"). The directors of the Company believe that the strategy to issue share options in return of consultancy services can bring benefits to the Group, without damaging the Group's operating cash flows and liquidity.

The exercise of the share options shall be conditional upon the Target being achieved within the period from January 17, 2011 to January 16, 2013. When the above Target is achieved, the share options will become exercisable within the Exercise Period.

Management determines that the fair value of the services received are amounting to approximately HK\$15,850,000, which is expensed on a straight-line basis over the vesting period, with a corresponding increase in share option reserve. The Group would record an expense based on the fair value of services received and would not be required to determine the fair value of the share options granted to the Grantees since the fair value of the services could be reliably measured.

During the year ended December 31, 2012, share-based payment expenses of approximately HK\$7,936,000 (2011: HK\$7,567,000) is recognized in the profit or loss.

The following table discloses movements of the Company's share options held by the Grantees during the year.

	Number of options
Outstanding at January 1, 2011	—
Granted during the year	20,000,000
Outstanding at December 31, 2011 and December 31, 2012	20,000,000
Exercisable at December 31, 2011 and December 31, 2012	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. RELATED PARTY TRANSACTIONS

Apart from the related party transaction as disclosed in notes 23 and 26, the Group had the following transactions during the year:

Nature of transactions

	2012 HK\$'000	2011 HK\$'000
Office premises expenses (Note)	42	43

Note: On July 31, 2008, a tenancy agreement (the "Tenancy Agreement") for the use of the principal place of business of the Company in Hong Kong was entered into between the landlord, a subsidiary of Pacific Concord Holding Limited ("PCH") of which ultimate shareholder is Mr. Wong, and the Group. The Tenancy Agreement is effective from August 1, 2008 to July 31, 2011.

On the same date, a sharing agreement was entered into between a subsidiary of PCH and the Group which both parties agreed that the principal office will be divided into two equal halves and each party will be entitled to occupy, use and possess half of the principal office. The rental and the electricity fee, fixed line telephone charge and other charges will be shared equally by the parties.

The Company has extended the tenancy by signing a new tenancy agreement (the "New Tenancy Agreement") with the landlord on July 22, 2011 for a further term of three years from August 1, 2011 to July 31, 2014. On the same date, the Company also entered into the new sharing agreement with the subsidiary of PCH to specify their respective rights and liabilities under the New Tenancy Agreement.

Compensation of key management personnel

The directors of the Company considered that the directors are the key management of the Group. The remuneration of key management personnel of the Group during the year was as follows:

	2012 HK\$'000	2011 HK\$'000
Short-term benefits	1,535	1,534

The remuneration of directors is determined by the remuneration committee with reference to the involvement and the business performance of the directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. LIST OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at December 31, 2012 and 2011 are as follows:

Name of the company	Country of establishment	Equity interest attributable to the Group as at December 31,		Issued and fully paid registered and paid-up capital as at December 31, 2012 and 2011	Principal activities
		2012	2011		
上海靜安協和房地產有限公司 Shanghai Jingan — Concord Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$68,000,000	Property development and investment
上海閔行協和房地產經營有限公司 Shanghai Minhang Concord Property Development Co., Ltd. [#]	PRC	100%	100%	US\$99,600,000	Property development and investment
上海盈多利物業管理有限公司 Shanghai Yingduoli Property Management Co., Ltd. ^{##}	PRC	100%	100%	RMB500,000	Property management service
重慶茵威房地產有限公司 Chongqing Ace Blossom Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$50,000,000	Property development and investment
重慶半山一號房地產有限公司 Chongqing Mid-Levels No. 1 Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$50,000,000	Property development and investment
重慶山頂一號房地產有限公司 Chongqing Peak No. 1 Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$50,000,000	Property development and investment
重慶江灣房地產有限公司 Chongqing Riverside Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$50,000,000	Property development and investment
重慶兩江房地產有限公司 Chongqing Yangtze-Jialing River Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$50,000,000	Property development and investment
重慶正天投資有限公司 Chongqing Zhengtian Investment Ltd. ^{##}	PRC	100%	100%	RMB51,000,000	Property development and investment

[#] Wholly foreign owned enterprises registered in the PRC.

^{##} A limited liability company registered in the PRC.

The English name stated above is for identification purpose only.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

36. MAJOR NON-CASH TRANSACTION

During the year ended December 31, 2012, the Group issued the convertible note of HK\$500,000,000, which had been agreed between the Company and the Subscriber to fall on August 14, 2012 with settlement against funds previously advanced by Mr. Wong to the Company. Further details of the issuance of the convertible note and set off of amount due to a shareholder are set out in notes 26 and 23 respectively.

The following report has been extracted from the Company's annual report dated March 29, 2012 entitled "Independent Auditor's Report". The report was prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for inclusion in the annual report and has been extracted for inclusion in this offering circular with the written consent of Deloitte Touche Tohmatsu, which has not been withdrawn as of the date of the offering circular.

Deloitte.

德勤

TO THE MEMBERS OF CHINA PROPERTIES GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 89, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 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 and to report our opinion 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. 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 judgment, 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 Group as at December 31, 2011 and of the Group's 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 29, 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

	NOTES	2011 HK\$'000	2010 HK\$'000
Revenue	8	983,785	207,262
Cost of sales		(626,734)	(54,970)
Gross profit		357,051	152,292
Other income, gains and losses	8	27,996	52,144
Selling expenses		(39,942)	(4,288)
Administrative expenses		(104,434)	(61,612)
Finance costs	9	—	—
		240,671	138,536
Changes in fair value of investment properties		2,385,228	5,894,501
Profit before taxation		2,625,899	6,033,037
Income tax expense	10	(626,460)	(1,555,205)
Profit for the year attributable to the owners of the Company	11	1,999,439	4,477,832
Other comprehensive income			
Exchange differences arising on translation to presentation currency		1,441,742	1,272,196
Total comprehensive income for the year attributable to the owners of the Company		3,441,181	5,750,028
Earnings per share			
— Basic (HK dollar)	14	1.11	2.48
— Diluted (HK dollar)	14	1.11	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2011

	NOTES	2011 HK\$'000	2010 HK\$'000
Non-current assets			
Property, plant and equipment	15	283,852	238,196
Prepaid lease payments	16	163,707	161,993
Investment properties	17	51,963,171	47,235,495
		52,410,730	47,635,684
Current assets			
Properties under development for sales	19	3,601,495	3,413,031
Properties held for sales, at cost	20	447,258	302,440
Trade and other receivables, deposits and prepayments	21	325,220	314,957
Tax recoverable		18,145	—
Pledged bank deposits	18	72,207	12,554
Bank balances and cash	18	1,192,134	796,730
		5,656,459	4,839,712
Current liabilities			
Deposits received on sales of properties	22	1,706,686	2,321,316
Other payables and accruals	22	688,438	588,212
Amount due to a shareholder	23	1,456,696	167,189
Tax payable		679,895	665,250
Bank loans, secured — due within one year	24	988,583	683,321
		5,520,298	4,425,288
Net current assets		136,161	414,424
Total assets less current liabilities		52,546,891	48,050,108

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2011

	NOTES	2011 HK\$'000	2010 HK\$'000
<hr/>			
Non-current liabilities			
Bank loans, secured — due after one year	24	2,716,642	3,016,650
Fixed rate senior notes	25	791,966	788,402
Deferred tax liabilities	26	10,953,515	9,959,036
Loan from a shareholder	23	350,000	—
		<hr/> 14,812,123	13,764,088
Net assets		<hr/> 37,734,768	34,286,020
<hr/>			
Capital and reserves			
Share capital	27	180,907	180,907
Share premium and reserves		37,553,861	34,105,113
Total equity		<hr/> 37,734,768	34,286,020
<hr/>			

The consolidated financial statements on pages 32 to 89 were approved and authorized for issue by the board of directors on March 29, 2012 and are signed on its behalf by:

Dr. Wang Shih Chang, George

DIRECTOR

Wong Sai Chung

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

	Attributable to owners of the Company									
	Share capital	Share premium	Revaluation reserve	Special reserve	Other reserve	General reserve	Share option reserve	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000 (Note 32)	HK\$'000	HK\$'000	HK\$'000
At January 1, 2010	180,907	1,378,443	6,410	778,662	2,455,562	51,533	—	2,059,522	21,624,953	28,535,992
Profit for the year	—	—	—	—	—	—	—	—	4,477,832	4,477,832
Exchange differences arising on translation to presentation currency	—	—	—	—	—	—	—	1,272,196	—	1,272,196
Total comprehensive income for the year	—	—	—	—	—	—	—	1,272,196	4,477,832	5,750,028
Transfer to general reserve	—	—	—	—	—	1,482	—	—	(1,482)	—
At December 31, 2010	180,907	1,378,443	6,410	778,662	2,455,562	53,015	—	3,331,718	26,101,303	34,286,020
Profit for the year	—	—	—	—	—	—	—	—	1,999,439	1,999,439
Exchange differences arising on translation to presentation currency	—	—	—	—	—	—	—	1,441,742	—	1,441,742
Total comprehensive income for the year	—	—	—	—	—	—	—	1,441,742	1,999,439	3,441,181
Recognition of share-based payment	—	—	—	—	—	—	7,567	—	—	7,567
At December 31, 2011	180,907	1,378,443	6,410	778,662	2,455,562	53,015	7,567	4,773,460	28,100,742	37,734,768

Notes:

- (a) Special reserve represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the corporate reorganisation ("Corporate Reorganisation") to rationalise the Group structure prior to the listing of the Company's share on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- (b) Other reserve arose from the acquisition by Mr. Wong Sai Chung, the ultimate controlling shareholder of the Company, of the interests in the Company's subsidiaries owned by other shareholders and the implementation of the Corporate Reorganisation.
- (c) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the subsidiaries established in the PRC may make an allocation to the general reserve from its profit for the year (prepared under the generally accepted accounting principles in the PRC) at a rate determined by directors of the relevant subsidiaries. The general reserve can only be used upon approval by the board of directors of the relevant subsidiaries to offset accumulated losses or increase capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	2011	2010
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	2,625,899	6,033,037
Adjustments for:		
Net gain from repurchase of senior notes	—	(35,875)
Amortization of prepaid lease payments	53	50
Depreciation of property, plant and equipment	2,890	2,898
Share-based payment expenses	7,567	—
Changes in fair value of investment properties	(2,385,228)	(5,894,501)
Interest income	(4,830)	(3,200)
Loss on disposal of property, plant and equipment	143	3
Operating cash flows before movements in working capital	246,494	102,412
Increase in properties under development for sales	(718,837)	(553,646)
Decrease in properties held for sales	618,891	30,127
Decrease (increase) in trade and other receivables	6,343	(116,853)
Increase in other payables and accruals	76,961	83,419
(Decrease) increase in deposits received on sales of properties	(695,698)	1,717,512
Cash (used in) generated from operations	(465,846)	1,262,971
PRC taxes paid	(63,779)	(41,108)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(529,625)	1,221,863
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(13,774)	(1,359)
Additions to investment properties	(250,658)	(1,109,739)
Withdrawal of pledged bank deposits	2,412	13,669
Placement of pledged bank deposits	(60,753)	(23)
Interest received	4,830	3,200
NET CASH USED IN INVESTING ACTIVITIES	(317,943)	(1,094,252)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	2011 HK\$'000	2010 HK\$'000
FINANCING ACTIVITIES		
Interest paid	(303,297)	(321,414)
New bank loans raised	226,149	2,209,287
Repayments of bank loans	(306,597)	(67,612)
Advance from (repayment to) a shareholder	1,596,383	(205,356)
Loan raised expenses	(5,643)	(17,142)
Repurchase of senior notes	—	(1,503,806)
NET CASH FROM FINANCING ACTIVITIES	1,206,995	93,957
NET INCREASE IN CASH AND CASH EQUIVALENTS	359,427	221,568
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	796,730	550,872
Effect of foreign exchange rate changes	35,977	24,290
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	1,192,134	796,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company is a public limited company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its parent and ultimate holding company is Hillwealth Holdings Limited (“Hillwealth”), a limited company incorporated in the British Virgin Islands (“BVI”). Its ultimate controlling party is Mr. Wong Sai Chung (“Mr. Wong”). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

The Company acts as an investment holding company. The subsidiaries of the Company are principally engaged in property development and property investment in the People’s Republic of China (the “PRC”). The principal activities of its principal subsidiaries are set out in note 34.

The functional currency of the Company and the respective group entities is Renminbi (“RMB”), the currency of the primary economic environment in which the Group operates. For the purpose of the consolidated financial statements and convenience of the financial statements users, the results and financial position of the Group are expressed in Hong Kong dollars (“HK\$”), the presentation currency for the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKAS 32	Classification of rights issues
Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendments to HK(IFRIC) — INT 14	Prepayments of a minimum funding requirement
HKAS 24 (as revised in 2009)	Related party disclosures
HK(IFRIC) — INT 19	Extinguishing financial liabilities with equity instruments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) — continued

The application of these new or revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but not yet effective:

HKAS 1 (Amendments)	Presentation of items of other comprehensive income ¹
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets ²
HKAS 19 (Revised 2011)	Employee benefits ³
HKAS 27 (Revised 2011)	Separate financial statements ³
HKAS 28 (Revised 2011)	Investments in associates and joint ventures ³
HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities ⁴
HKFRS 7 (Amendments)	Disclosures — Transfers of financial assets ⁵
HKFRS 7 (Amendments)	Disclosures — Offsetting financial assets and financial liabilities ³
HKFRS 9	Financial instruments ⁶
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures ⁶
HKFRS 10	Consolidated financial statements ³
HKFRS 11	Joint arrangements ³
HKFRS 12	Disclosure of Interests in other entities ³
HKFRS 13	Fair value measurement ³
HK(IFRIC) — INT 20	Stripping costs in the production phase of a surface mine ³

¹ Effective for annual periods beginning on or after July 1, 2012.

² Effective for annual periods beginning on or after January 1, 2012.

³ Effective for annual periods beginning on or after January 1, 2013.

⁴ Effective for annual periods beginning on or after January 1, 2014.

⁵ Effective for annual periods beginning on or after July 1, 2011.

⁶ Effective for annual periods beginning on or after January 1, 2015.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) — continued

Amendments to HKAS 12 Deferred tax — Recovery of underlying assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment property” are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after January 1, 2012. The directors of the Company are in the process of assessing the financial impact.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Under HKFRS 9 requires all recognized financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will not have a significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities based on an analysis of the financial instruments held by the Group as at December 31, 2011.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) — continued

HKFRS 13 Fair Value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group’s consolidated financial statements for the annual period beginning January 1, 2013 and that the application may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Basis of consolidation — continued

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value at consideration received or receivable.

Revenue from sale of properties and pre-completion contracts for the sale of development properties in the ordinary course of business is recognized when all of the following criteria are satisfied:

- the significant risks and rewards of ownership of the properties are transferred to purchasers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The above criteria are met when the construction of relevant properties has been completed, and the title of properties has been transferred or the properties have been delivered to the purchasers pursuant to the sales agreement whichever is earlier and the collectibility of related receivables is reasonably assumed. Deposits and instalments received from purchasers on properties sold prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Rental income from properties under operating leases is recognized in the consolidated statement of comprehensive income on a straight-line basis over the term of the relevant leases.

Service income is recognized when services are provided.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortized on a straight-line basis over the lease term. During the construction period, the amortization charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognized.

Properties under development for sales

Properties under development for sales are stated at the lower of cost and net realizable value. Cost comprises both the prepaid lease payments for the land and development cost for the property. Net realizable value takes into account the price ultimately expected to be realized, less applicable selling expenses and the anticipated costs to completion.

Development cost of property comprises construction costs, borrowing costs capitalized according to the Group's accounting policy and directly attributable cost incurred during the development period. On completion, the properties are transferred to properties held for sales.

Properties held for sales

Properties held for sales are stated at the lower of cost and net realizable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Financial assets — continued

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable or an other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities including bank borrowings, other payables and accruals, amount due to a shareholder and fixed rate senior notes are subsequently measured at amortized cost, using the effective interest method.

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Derecognition — continued

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment losses on assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary 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. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference 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, 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.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at that date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Retirement benefit costs

Payments to the defined contribution retirement benefit schemes and state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured. The fair values of the services received are recognized as expenses on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets. If the fair value of the services received cannot be estimated reliably, the Group shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of equity instruments granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Estimate of fair value of investment properties

As described in note 17, investment properties under construction were mainly revalued at the end of the reporting period using a residual method by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the valuation, the Group's management has made estimates concerning current prices and rental yield for potential sales proceeds and rental income to be generated by the completed investment properties and made deductions for the estimated development costs and required estimated development profits from the investment properties. The assumptions used are intended to reflect conditions existing at the end of the reporting period. Where there are any changes in the assumptions due to the market conditions in the PRC, the estimate of fair value of investment properties may be significantly affected. As at December 31, 2011, investment properties under construction of approximately HK\$42,513,871,000 (2010: HK\$38,646,453,000) were revalued using a residual method.

Estimate of net realizable value of properties under development for sales and properties held for sales

As at December 31, 2011, properties under development for sales of approximately HK\$3,601,495,000 (2010: HK\$3,413,031,000) and properties held for sales of approximately HK\$447,258,000 (2010: HK\$302,440,000) are stated at the lower of the cost and net realizable value. Cost of each unit in each phase of development is determined using the weighted average method. The estimated net realizable value is estimated selling price less selling expenses and estimated cost of completion (if any), which are estimated based on best available information. Where there are any decrease in the estimated selling price arising from any changes to the market conditions in the PRC, there may be impairment loss recognized on the properties under development for sales and properties held for sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

Land appreciation taxes

PRC land appreciation tax (“LAT”) 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 expenditure.

The Group is subject to LAT in the PRC which has been included in income tax expense of the Group. Significant judgment is required determining the amount of land appreciation and its related taxes. The Group recognizes these liabilities based on management’s best estimates. Where the final outcome of this matter is different from the amounts that were initially recorded, such differences will impact the income tax expense in the period in which such determination is made. As at December 31, 2011, the Group has LAT payables of approximately HK\$636,130,000 (2010: HK\$623,756,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balances. The Group’s overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in notes 24 and 25, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risk associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payments of dividends, new share issues, shares buy-backs and the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 HK\$’000	2010 HK\$’000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,279,568	819,072
Financial liabilities		
Amortized cost	6,992,325	5,243,774

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Financial risk management objectives and policies

The Group's major financial instruments include bank balances and cash, pledged bank deposits, bank borrowings, trade and other receivables, other payables and accruals, amount due to and loan from a shareholder and fixed rate senior notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

Foreign currency risk

The Group's transactions are mainly denominated in RMB (which is the functional currency of respective group entities), except for certain bank balances, bank loans and fixed rate senior notes which are denominated in Hong Kong dollars ("HKD") and United States dollars ("USD") as disclosed below. The Group has not used any forward contract to hedge its exposure to currency risk. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. A significant depreciation/appreciation in the RMB against USD and HKD may have a material impact on the Group's results.

As at the end of each reporting period, certain financial assets and financial liabilities of the Group were denominated in HKD and USD which is the currency other than the functional currency of the relevant group entities. The carrying amounts of those foreign currency monetary items are set out below:

	HKD		USD	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Bank balances and cash	105	158	39	4,304
Banks loans	—	—	1,382,940	1,536,600
Fixed rate senior notes	—	—	791,966	788,402

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Market risks — continued

Foreign currency risk — continued

Sensitivity analysis

The Group is mainly exposed to the currency of HKD and USD and the sensitivity analysis includes only outstanding foreign currency denominated monetary items and their translation at the year end for a 5% (2010: 5%) change in foreign currency rates. 5% (2010: 5%) is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates.

A positive number below indicates an increase in post-tax profit for the year where RMB strengthens 5% against USD and HKD for the current year. For a 5% weakening of RMB against USD and HKD, there would be an equal but opposite impact on the post-tax profit for the year.

	HKD impact		USD impact	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the year	(5)	(8)	108,743	116,035

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 24 for details). The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits and fixed rate senior notes (see note 25 for details). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. In addition, the management monitors the interest rate movement for long term borrowings and will consider to exercise the redemption option for the fixed rate senior notes if necessary.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 1% (2010: 1%) increase or decrease is used in management's assessment of the reasonably possible change in interest rates.

If interest rate relating to its variable-rate bank borrowings of the Group increases or decreases by 1%, finance costs would increase or decrease by approximately HK\$31,247,000 (2010: HK\$31,591,000). Since all the Group's finance costs had been capitalized in investment properties under construction and properties under development for sales, there would be no effect on the Group's post-tax profit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity tables

	Weighted average interest rate	On demand or less than 1 year HK\$'000	Between 1–2 years HK\$'000	Between 2–5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at December 31, 2011						
Other payables and accruals	N/A	688,438	—	—	688,438	688,438
Amount due to a shareholder	N/A	1,456,696	350,000	—	1,806,696	1,806,696
Variable rates bank borrowings	6.242%	1,208,231	2,704,827	107,945	4,021,003	3,705,225
Fixed rate senior notes	9.125%	73,029	73,029	825,474	971,532	791,966
Financial guarantee contracts	N/A	1,917,608	—	—	1,917,608	—
		5,344,002	3,127,856	933,419	9,405,277	6,992,325
As at December 31, 2010						
Other payables and accruals	N/A	588,212	—	—	588,212	588,212
Amount due to a shareholder	N/A	167,189	—	—	167,189	167,189
Variable rates bank borrowings	5.723%	865,880	1,049,291	2,200,978	4,116,149	3,699,971
Fixed rate senior notes	9.125%	73,029	73,029	898,503	1,044,561	788,402
Financial guarantee contracts	N/A	1,745,712	—	—	1,745,712	—
		3,440,022	1,122,320	3,099,481	7,661,823	5,243,774

6. FINANCIAL INSTRUMENTS — continued

Liquidity risk — continued

Liquidity tables — continued

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Credit risk

As at December 31, 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 28.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

For properties that are still under construction, the Group typically provides guarantees to banks in connection with its customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. Such guarantees expire upon the completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the customer's deposit and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Fair value

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

7. SEGMENT INFORMATION

The Company's Chief Executive Officer is the chief operating decision maker. The Group is principally operating in two operating locations of three principal business activities. Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the operating locations of each principal business activity. The principal locations are Shanghai and Chongqing in the PRC. The Group's operating segments under HKFRS 8 are therefore as follows:

Property development (developing and selling of properties)	—	Shanghai
	—	Chongqing
Property investment (leasing of investment properties)	—	Shanghai
	—	Chongqing

Others (hotel operation, provision of building management and construction consultancy service)

Information regarding the above segments is presented below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment:

For the year ended December 31, 2011

	Property development		Property investment		Others	Total
	Shanghai	Chongqing	Shanghai	Chongqing		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
External sales	24,181	936,744	20,825	—	2,035	983,785
Segment profit (loss)	10,311	289,124	1,793,530	613,457	(4,085)	2,702,337
Other income, gains and losses						27,996
Unallocated expenses						(104,434)
Profit before taxation						2,625,899

For the year ended December 31, 2010

	Property development		Property investment		Others	Total
	Shanghai	Chongqing	Shanghai	Chongqing		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
External sales	180,839	—	24,356	—	2,067	207,262
Segment profit (loss)	131,648	(1,987)	3,381,380	2,533,383	(1,920)	6,042,504
Other income, gains and losses						47,655
Unallocated expenses						(57,122)
Profit before taxation						6,033,037

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by (loss from) each segment including the changes in fair value of investment properties without allocation of other income, gains and losses, certain selling expenses, central administrative expenses including share-based payment expenses and directors' salaries. This is the measure reported to the Group's Chief Executive Officer for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment which is also the information presented to the Group's Chief Executive Officer:

	2011 HK\$'000	2010 HK\$'000
Segment assets		
Property development		
— Shanghai	793,961	704,981
— Chongqing	3,257,522	3,013,118
Property investment		
— Shanghai	43,469,855	39,967,703
— Chongqing	8,493,316	7,267,792
Others	381,839	333,478
Segment total	56,396,493	51,287,072
Unallocated assets	1,670,696	1,188,324
Consolidated assets	58,067,189	52,475,396
Segment liabilities		
Property development		
— Shanghai	357,196	320,066
— Chongqing	3,525,747	4,006,862
Property investment		
— Shanghai	954,760	989,979
— Chongqing	1,901,745	1,934,363
Others	85,671	31,268
Segment total	6,825,119	7,282,538
Unallocated liabilities	13,507,302	10,906,838
Consolidated liabilities	20,332,421	18,189,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Segment assets and liabilities — continued

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments, other than certain property, plant and equipment, certain prepaid lease payments, other receivables, deposits and prepayments, pledged bank deposits and bank balances and cash which are commonly used among segments or used for corporate operation.
- all liabilities are allocated to operating segments other than certain other payables and accruals, amount due to a shareholder and current and deferred tax liabilities which are corporate liabilities that are unallocated either. Fixed-rate senior notes and banks loans are allocated on a consistent basis with finance costs capitalized. For the year ended December 31, 2010, the net gains from repurchase of senior notes as a result of financing activities conducted centrally by the corporate office was not allocated to respective operating segments as it was not attributable to their operations.

Other segment information

For the year ended December 31, 2011

	Property development		Property investment		Others	Segment total	Adjustments	Total
	Shanghai	Chongqing	Shanghai	Chongqing				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
							(Note a)	
Amounts included in the measure of segment profit or loss or segment assets:								
Changes in fair value of investment properties	—	—	1,771,771	613,457	—	2,385,228	—	2,385,228
Additions to non-current assets (Note b)	—	—	144,907	314,561	38,998	498,466	1,724	500,190
Depreciation of property, plant and equipment	—	—	—	—	72	72	4,541	4,613
Amortization of prepaid lease payments	—	—	—	—	4,509	4,509	53	4,562

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Other segment information — continued

For the year ended December 31, 2010

	Property development		Property investment			Segment total	Adjustments	Total
	Shanghai	Chongqing	Shanghai	Chongqing	Others			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
							(Note a)	
Amounts included in the measure of segment profit or loss or segment assets:								
Changes in fair value of investment properties	—	—	3,361,118	2,533,383	—	5,894,501	—	5,894,501
Additions to non-current assets (Note b)	—	—	160,534	1,193,582	—	1,354,116	1,359	1,355,475
Depreciation of property, plant and equipment	—	—	—	—	1,814	1,814	2,898	4,712
Amortization of prepaid lease payments	—	—	—	—	2,474	2,474	50	2,524

Notes:

- (a) All amounts included in the measure of segment profit or loss or segment assets are allocated to operating segments other than certain additions to non-current assets and depreciation of property, plant and equipment and amortization of prepaid lease payments which are related to unallocated assets commonly used between segments or used for corporate operation.
- (b) Non-current assets include the investment properties, property, plant and equipment and prepaid lease payments.

Geographical information

All revenue of the Group are derived from operations in the PRC.

Non-current assets of the Group are mainly located in the PRC (group entity's country of domicile).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Information about major customer

Revenue from major customer of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	2011	2010
	HK\$'000	HK\$'000
Customer A (Note) [#]	N/A	105,991

Note: The corresponding revenue generated in the year ended December 31, 2011 did not contribute over 10% of total revenue of the Group.

[#] Revenue from property development — Shanghai segment

8. REVENUE AND OTHER INCOME, GAINS AND LOSSES

	2011	2010
	HK\$'000	HK\$'000
Revenue		
Sales of residential properties	960,925	180,839
Property rental income	20,825	24,356
Property management income	2,035	2,067
	983,785	207,262
Other income, gains and losses		
Net gain from repurchase of senior notes (Note)	—	35,875
Net exchange gain	22,191	4,489
Interest on bank deposits	4,830	3,200
Others	975	8,580
	27,996	52,144
Total revenue and other income, gains and losses	1,011,781	259,406

Note: The expenses directly attributable to the repurchase of senior note amounted to approximately HK\$21,863,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. FINANCE COSTS

	2011	2010
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	235,131	132,836
Effective interest expense on fixed rate senior notes	77,373	238,479
Total finance costs	312,504	371,315
Less: Amount capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	(312,504)	(371,315)
	—	—

Borrowing costs capitalized during the year arose on the specific borrowings.

10. INCOME TAX EXPENSE

	2011	2010
	HK\$'000	HK\$'000
Current tax		
Enterprise income tax in the PRC	27,747	21,977
LAT in the PRC	2,406	64,630
	30,153	86,607
Deferred tax (note 26)		
Current year	596,307	1,468,598
	626,460	1,555,205

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries, Shanghai Jingan-Concord Real Estate Co., Ltd. ("Jingan Concord"), Shanghai Minhang Concord Property Development Co., Ltd. ("Minhang Concord"), Shanghai Yingduoli Property Management Company Limited ("Property Management Co") and Chongqing Yangtze-Jialing River Real Estate Co., Ltd., is 25% for both years.

Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulations of the PRC on January 27, 1995, all gains arising from transfer of real estate property in the PRC effective from January 1, 1994 are subject to LAT 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 borrowings costs and all property development expenditures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX EXPENSE — continued

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years in 2010 and 2011.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2011	2010
	HK\$'000	HK\$'000
Profit before taxation	2,625,899	6,033,037
Tax at PRC enterprise income tax rate of 25%	656,474	1,508,259
Tax effect of expenses not deductible for tax purpose	11,014	7,874
Tax effect of income not taxable for tax purpose	(13,612)	(8,969)
LAT	2,406	64,630
Income tax effect of LAT	(602)	(16,157)
Tax effect of utilization of tax losses previously not recognized	(29,220)	—
Income tax at concessionary rate	—	(432)
Income tax for the year	626,460	1,555,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. PROFIT FOR THE YEAR

	2011	2010
	HK\$'000	HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 12)	1,534	1,530
Other staff costs		
— salaries and other benefits	25,528	25,753
— contributions to retirement benefits schemes	4,269	4,059
Total staff costs	31,331	31,342
Less: Amount capitalized in investment properties under construction and properties under development for sales	(11,205)	(12,982)
	20,126	18,360
Share-based payment expenses	7,567	—
Auditor's remuneration	2,400	3,112
Amortization of prepaid lease payments	4,562	2,524
Less: Amount capitalized in construction in progress under property, plant and equipment	(4,509)	(2,474)
	53	50
Depreciation of property, plant and equipment	4,613	4,712
Less: Amount capitalized in construction in progress under property, plant and equipment	(1,723)	(1,814)
	2,890	2,898
Loss on disposal of property, plant and equipment	143	3
Cost of properties sold (included in cost of sales)	620,033	48,984
Compensation to purchasers to re-schedule delivery of properties (included in administrative expenses)	13,903	—
Gross rental income from investment properties	(20,825)	(24,356)
Less: Direct operating expenses from investment properties that generated rental income during the year	610	4,093
	(20,215)	(20,263)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	2011 HK\$'000	2010 HK\$'000
Fees	1,258	1,254
Salaries and allowances	276	276
	1,534	1,530

The emoluments paid to the directors were as follows:

For the year ended December 31, 2011

	Fees HK\$'000	Salaries and allowances HK\$'000	Discretionary bonus HK\$'000 (Note)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Executive directors:					
Dr. Wang Shih Chang, George	—	—	—	—	—
Mr. Wong	—	—	—	—	—
Mr. Xu Li Chang	—	276	—	—	276
	—	276	—	—	276
Non-executive director:					
Mr. Kwan Kai Cheong	240	—	—	—	240
Independent non-executive directors:					
Mr. Warren Talbot Beckwith	240	—	—	—	240
Mr. Cheng Chaun Kwan, Michael	240	—	—	—	240
Mr. Luk Koon Hoo	240	—	—	—	240
Mr. Garry Alides Willinge	240	—	—	—	240
Mr. Wu Zhi Gao	58	—	—	—	58
	1,018	—	—	—	1,018
	1,258	276	—	—	1,534

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS — continued

Directors' emoluments — continued

For the year ended December 31, 2010

	Fees HK\$'000	Salaries and allowances HK\$'000	Discretionary bonus HK\$'000 (Note)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Executive directors:					
Dr. Wang Shih Chang, George	—	—	—	—	—
Mr. Wong	—	—	—	—	—
Mr. Xu Li Chang	—	276	—	—	276
	—	276	—	—	276
Non-executive director:					
Mr. Kwan Kai Cheong	240	—	—	—	240
Independent non-executive directors:					
Mr. Warren Talbot Beckwith	240	—	—	—	240
Mr. Cheng Chaun Kwan, Michael	240	—	—	—	240
Mr. Luk Koon Hoo	240	—	—	—	240
Mr. Garry Alides Willinge	240	—	—	—	240
Mr. Wu Zhi Gao	54	—	—	—	54
	1,014	—	—	—	1,014
	1,254	276	—	—	1,530

Note: The performance related incentive payment is determined by reference to the individual performance of the directors and approved by the remuneration committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS — continued

Employees' emoluments

The emoluments for the five individuals with the highest emoluments in the Group did not include any director for both years, details of whose emoluments are set out above. The emoluments of the five highest paid individuals (2010: five) were as follows:

	2011 HK\$'000	2010 HK\$'000
Salaries and allowances	4,140	3,970
Retirement benefits scheme contributions	97	103
	4,237	4,073

Their emoluments were within the following bands:

	2011 Number of employees	2010 Number of employees
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	2	2
	5	5

During both years, no remuneration was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during both years.

13. DIVIDENDS

No dividend was paid or declared during 2011 and 2010, nor has any dividend been proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2011	2010
	HK\$'000	HK\$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	1,999,439	4,477,832
<hr/>		
	2011	2010
	'000	'000
<hr/>		
Number of shares		
Number of ordinary shares in issue during the year for the purposes of basic and diluted earnings per share	1,809,077	1,809,077

The computation of diluted earnings per share for the year ended December 31, 2011 did not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares for the year.

No dilutive earnings per share is presented for the year ended December 31, 2010 as there were no potential ordinary shares outstanding during that year and as at December 31, 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land	Buildings	Leasehold improvements	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note)						
COST							
At January 1, 2010	60,766	19,268	47	10,579	10,775	—	101,435
Exchange adjustments	2,296	749	1	392	407	—	3,845
Additions	—	728	—	320	311	—	1,359
Transfer from investment properties under construction (note 17)	—	—	—	—	—	167,216	167,216
Disposals	—	—	—	(4)	—	—	(4)
At December 31, 2010	63,062	20,745	48	11,287	11,493	167,216	273,851
Exchange adjustments	2,468	830	2	447	441	6,952	11,140
Additions	—	1,231	—	909	—	38,582	40,722
Disposals	—	—	—	(571)	—	—	(571)
At December 31, 2011	65,530	22,806	50	12,072	11,934	212,750	325,142
DEPRECIATION							
At January 1, 2010	10,634	5,108	47	7,036	6,888	—	29,713
Exchange adjustments	443	218	1	288	281	—	1,231
Provided for the year	1,535	895	—	1,089	1,193	—	4,712
Disposals	—	—	—	(1)	—	—	(1)
At December 31, 2010	12,612	6,221	48	8,412	8,362	—	35,655
Exchange adjustments	516	257	2	323	352	—	1,450
Provided for the year	1,616	998	—	765	1,234	—	4,613
Disposals	—	—	—	(428)	—	—	(428)
At December 31, 2011	14,744	7,476	50	9,072	9,948	—	41,290
CARRYING VALUES							
At December 31, 2011	50,786	15,330	—	3,000	1,986	212,750	283,852
At December 31, 2010	50,450	14,524	—	2,875	3,131	167,216	238,196

Note: On initial recognition, the leasehold land was classified as investment properties carried at fair value. The leasehold land was subsequently transferred to property, plant and equipment during the year ended December 31, 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT — continued

The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the lease terms
Buildings	Shorter of lease terms and 4.5%
Office equipment, furniture and fixtures, and motor vehicles	18%–19%
Leasehold improvements	Shorter of 4.5% and the remaining term of the land lease on which the buildings are located

Certain of the Group's leasehold land and construction in progress with a carrying value of approximately HK\$24,900,000 (2010: HK\$24,735,000) and HK\$63,117,000 (2010: HK\$56,847,000) respectively were pledged to secure certain banking facilities granted to the Group.

The leasehold land and buildings are located in the PRC under medium-term lease.

16. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments comprises land use rights in the PRC as follows:

	2011	2010
	HK\$'000	HK\$'000
Long lease	662	689
Medium-term lease	163,045	161,304
	163,707	161,993

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES

	2011 HK\$'000	2010 HK\$'000
FAIR VALUE		
Completed properties held for rental purpose (Note a)		
At the beginning of the year	2,865,749	2,837,054
Exchange adjustments	109,817	105,120
Net changes in fair value recognized in profit or loss	89,356	(76,425)
At the end of the year	3,064,922	2,865,749
Leasehold land under and held for construction of properties for rental purpose and investment properties under construction		
At the beginning of the year	41,270,301	33,167,936
Exchange adjustments	1,647,431	1,433,001
Additions	26,810	971,712
Transfer to prepaid lease payments	—	(70,600)
Transfer to properties under development for sales (note 19)	—	(202,674)
Net changes in fair value recognized in profit or loss	2,295,872	5,970,926
At the end of the year	45,240,414	41,270,301
Sub-total	48,305,336	44,136,050
COST		
Investment properties under construction (Note b)		
At the beginning of the year	3,099,445	2,859,660
Exchange adjustments	125,732	112,937
Additions	432,658	382,404
Transfer to construction in progress under property, plant and equipment (note 15)	—	(167,216)
Transfer to properties under development for sales (note 19)	—	(88,340)
At the end of the year	3,657,835	3,099,445
Total	51,963,171	47,235,495

Notes:

- (a) As at December 31, 2011, included in the Group's completed properties held for rental purpose balance are properties in Shanghai, namely, Shanghai Concord City Phase I with carrying amount of approximately HK\$2,517,074,000 (2010: HK\$2,351,848,000); of which around 40% (2010: 30%) is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants.
- (b) The amount represents the construction costs for the building portion of certain investment property projects. The land portion is measured at fair value and grouped under leasehold land under and held for construction of properties for rental purpose and investment properties under construction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES — continued

The fair values of certain of the Group's investment properties at December 31, 2011 and 2010 were arrived at on the basis of a valuation carried out on those dates by Cushman & Wakefield Valuation Advisory Services (HK) Ltd. ("C&W") in respect of the investment properties situated in Shanghai and Chongqing, the PRC. C&W is an independent qualified professional valuer not connected with the Group, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The fair values of investment properties in Shanghai and Chongqing determined by C&W are approximately HK\$40,447,549,000 (2010: HK\$37,172,952,000) and HK\$5,131,244,000 (2010: HK\$4,339,250,000) respectively as at December 31, 2011. For completed investment properties, the valuations have been arrived at using the capitalization of net income method of valuation, based on the present value of the income to be derived from the properties. For the properties which are currently vacant, the valuation was based on capitalization of the hypothetical and reasonable market rents with a typical lease term. For investment properties under construction or development, the valuations have been arrived at residual approach by making reference to recent sales transactions of completed properties or rental yield as available in the relevant market to determine the potential sales proceeds or rental income of the completed investment properties, less estimated costs to completion and expected developed profit margin. The rental income included in the residual method was principally based on income approach by taking into account the current rents passing and the reversionary income potential of tenancies.

In July 2010, the Group has acquired a piece of land with total consideration of RMB818,450,000 (equivalent to approximately HK\$963,336,000) which is to be developed together with another piece of land already acquired by the Group in prior year and situated next to this new acquisition. As at December 31, 2011, the development plan on this combined land plot has not yet been approved by the relevant government authority. As at December 31, 2011, the fair values of these two pieces of land in Chongqing amounted to approximately HK\$2,726,543,000 (2010: HK\$2,623,848,000) is determined by the directors. The directors have determined that the valuation of these two pieces of land approximated to the fair value of the existing land plot as at December 31, 2009 plus the acquisition cost of the land just acquired during the year ended December 31, 2010.

For investment properties located in Shanghai

For the year ended December 31, 2011, in determining the fair values of the investment properties located in Shanghai, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

- a. Annual growth rate of rental income is ranging from 3% to 6% (2010: ranging from 3% to 6%)
- b. Occupancy rate for the investment properties is ranging from 50% to 98% (2010: ranging from 50% to 98%)
- c. Expected developer profit is ranging from 10% to 20% (2010: ranging from 10% to 20%)
- d. Discount rate is ranging from 4% to 10% (2010: ranging from 4% to 9%)
- e. Rental rate per month per square metre is ranging from HK\$197 to HK\$1,766 (2010: ranging from HK\$187 to HK\$1,520)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing

For the year ended December 31, 2011, in determining the fair values of the investment properties located in Chongqing, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

- a. Annual growth rate of rental income is ranging from 4% to 6% (2010: 4%)
- b. Occupancy rate for the investment properties is ranging from 60% to 80% (2010: ranging from 60% to 85%)
- c. Expected developer profit is ranging from 25% to 30% (2010: ranging from 20% to 30%)
- d. Discount rate is ranging from 7% to 11% (2010: ranging from 6% to 9%)
- e. Rental rate per month per square meter is ranging from HK\$134 to HK\$950 (2010: ranging from HK\$85 to HK\$853)

The investment properties shown above are situated on leasehold land in the PRC as follows:

	2011	2010
	HK\$'000	HK\$'000
Long lease	6,341,146	6,040,970
Medium-term lease	45,622,025	41,194,525
	51,963,171	47,235,495

As at December 31, 2011, certain of the Group's investment properties under construction carried at cost with a carrying value of approximately HK\$708,364,000 (2010: HK\$479,697,000) were pledged to secure certain banking facilities granted to the Group.

As at December 31, 2011, certain of the Group's investment properties (excluding investment properties under construction carried at cost) with a carrying value of approximately HK\$19,678,096,000 (2010: HK\$17,920,365,000) were pledged to secure certain banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing — continued

All the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at December 31, 2011, the Group obtained four (2010: four) out of seven (2010: seven) State-owned Land Use Rights Certificates ("Certificates") for Chongqing projects sites. The Group was in the process of obtaining the remaining three (2010: three) Certificates. The carrying amounts of the prepaid lease payments, investment properties and properties under development for sales which relate to these remaining three (2010: three) Certificates amounted to approximately HK\$159,516,000 (2010: HK\$157,685,000), HK\$7,115,629,000 (2010: HK\$5,871,694,000) and HK\$535,724,000 (2010: HK\$386,255,000) respectively.

18. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The following bank deposits have been pledged to secure:

	2011	2010
	HK\$'000	HK\$'000
Bank loans of the Group	70,939	8,997
Bank loans procured by the purchasers of the Group's properties (Note 28)	1,268	3,557
	72,207	12,554

At December 31, 2011, pledged bank deposits of approximately HK\$72,207,000 (2010: HK\$12,554,000) were pledged for short term borrowings due within one year and the amount was classified as current.

The pledged bank deposits carry effective interest rates which range from 0.50% to 3.10% (2010: 0.36% to 1.71%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. Bank balances carry interest at market rates which range from 0.01% to 0.50% (2010: 0.01% to 0.36%) per annum.

As at December 31, 2011, pledged bank deposits and bank balances and cash of approximately HK\$72,207,000 (2010: HK\$12,554,000) and HK\$1,191,990,000 (2010: HK\$786,381,000) respectively were denominated in RMB which is not freely convertible into other currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. PROPERTIES UNDER DEVELOPMENT FOR SALES

	2011	2010
	HK\$'000	HK\$'000
Cost		
At the beginning of the year	3,413,031	2,324,384
Exchange adjustments	133,124	112,761
Additions	801,815	684,872
Transfer from leasehold land under and held for construction of properties for rental purpose and investment properties under construction (note 17)	—	202,674
Transfer to properties held for sale	(746,475)	—
Transfer from investment properties under construction (note 17)	—	88,340
At the end of the year	3,601,495	3,413,031
Properties under development for sales of which:		
— expected to be realized within twelve months	847,841	941,430
— expected to be realized over twelve months	2,753,654	2,471,601
	3,601,495	3,413,031

As at December 31, 2011, certain of the Group's properties under development for sales with a carrying value of approximately HK\$2,190,914,000 (2010: HK\$1,656,731,000) were pledged to secure certain banking facilities granted to the Group.

The carrying amount of properties under development for sales are situated on land use rights in the PRC as follows:

	2011	2010
	HK\$'000	HK\$'000
Long lease	185,386	175,880
Medium-term lease	3,416,109	3,237,151
	3,601,495	3,413,031

As at December 31, 2011, included in properties under development for sales are properties with a carrying value of HK\$253,786,000 which is put on hold for sale by the governing body. Subsequent to the end of the reporting date, the Group addressed the matter and a release notice was received by the Group from the governing body on March 7, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. PROPERTIES HELD FOR SALES

As at December 31, 2011, certain of the Group's properties held for sales with a carrying value of approximately HK\$281,939,000 (2010: HK\$276,201,000) were pledged to secure certain banking facilities granted to the Group.

Properties held for sales which

	2011	2010
	HK\$'000	HK\$'000
— will be realised within twelve months	199,929	302,440
— will be realised within more than twelve months after the end of the reporting period	247,329	—
	447,258	302,440

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Consideration in respect of completed properties sold are paid in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the agreement date. Consideration in respect of properties sold under pre-sale contracts will be fully received prior to the delivery of the properties to the purchasers.

	2011	2010
	HK\$'000	HK\$'000
Trade receivables	2,731	2,628
Prepayment of business taxes and other PRC taxes	131,717	145,148
Other receivables, deposits and prepayments	190,772	167,181
	325,220	314,957

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by the Group regularly. As at December 31, 2011, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$2,731,000 (2010: HK\$2,628,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is over 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS — continued

	2011	2010
	HK\$'000	HK\$'000
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Aged analysis of trade receivables:		
Over 90 days	2,731	2,628
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22. DEPOSITS RECEIVED ON SALES OF PROPERTIES AND OTHER PAYABLES AND ACCRUALS

	2011	2010
	HK\$'000	HK\$'000
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Deposits received on sales of properties	1,706,686	2,321,316
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Deposits received on sales of properties of which:		
— expected to be realized within twelve months	1,706,686	1,246,129
— expected to be realized over twelve months	—	1,075,187
	1,706,686	2,321,316
<hr/>		
Other payables and accruals:		
Accruals for construction costs	576,456	434,778
Other payables and accruals	111,982	153,434
	688,438	588,212
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23. AMOUNT DUE TO/LOAN FROM A SHAREHOLDER

Amount due to a shareholder, Mr. Wong, was non-trade in nature, unsecured, interest-free and repayable on demand. In respect of the outstanding amount, an aggregate amount of HK\$1,045,662,000 has been repaid to the shareholder on January 4, 2012 and January 5, 2012.

Based on the agreement entered between Mr. Wong and the Company on December 31, 2011, a loan of HK\$350,000,000 is provided to the Group by Mr. Wong, which is interest-free, unsecured and repayable after one year from the end of reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. BANK LOANS, SECURED

	2011 HK\$'000	2010 HK\$'000
Carrying amounts of the variable-rate bank loans repayable based on contractual term [*] :		
Within one year	988,583	683,321
More than one year, but not exceeding two years	2,612,068	888,770
More than two years, but not exceeding five years	104,574	2,127,880
	3,705,225	3,699,971
Less: Amount due within one year shown under current liabilities	(988,583)	(683,321)
Amount shown under non-current liabilities	2,716,642	3,016,650

^{*} The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2011 HK\$'000	2010 HK\$'000
USD (Note)	1,382,940	1,536,600

Note: As at December 31, 2011, the borrowings were secured by the share of certain subsidiaries of the Company in the PRC.

The interest rates of the Group's variable-rate borrowings are based on base rate fixed by the People's Bank of China ("PBOC") or London InterBank Offered Rates ("LIBOR") plus a premium. Details are as follows:

	2011 HK\$'000	2010 HK\$'000
Base rate fixed by PBOC plus a premium:		
Carrying amounts repayable:		
Within one year	681,263	529,661
More than one year, but not exceeding two years	1,536,448	581,450
More than two years, but not exceeding five years	104,574	1,052,260
LIBOR plus a premium:		
Carrying amounts repayable:		
Within one year	307,320	153,660
More than one year, but not exceeding two years	1,075,620	307,320
More than two years, but not exceeding five years	—	1,075,620

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are ranged from 4.80% to 7.98% (2010: 4.80% to 7.02%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. FIXED RATE SENIOR NOTES

On April 27, 2007, the Company issued approximately US\$300 million (approximately HK\$2,340,000,000) in aggregate principal amount of the fixed rate senior notes which contain two components, liability and early redemption options.

The notes bear interest at the fixed rate of 9.125% per annum. The interest charged for the year is calculated by applying an effective interest rate of approximately 10.85% (2010: 10.85%) per annum. Interest on the notes is payable on May 4 and November 4 of each year. The notes will mature on May 4, 2014. The notes are guaranteed by certain of the Company's subsidiaries other than those established under the laws of the PRC.

At any time before May 4, 2011, the Company may redeem the notes, in whole or in part, at a redemption price equal to 100% of their principal amount plus a premium and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to May 4, 2011, the Company may redeem up to 35% of the principal amount of the notes using net cash proceeds from certain equity offerings at a redemption price of 109.125% of the principal amount of the notes plus accrued and unpaid interest, if any, to the redemption date.

On or after May 4, 2011, the Company may, at its option, redeem all or part of the notes at the redemption prices equals to the percentage of the principal amount set forth below plus accrued and unpaid interest to the redemption date if redeemed during the 12-month period commencing on May 4 of the years indicated below:

12-month period commencing in the year	Percentage
2011	104.56250%
2012	102.28125%
2013 and thereafter	100.00000%

The directors of the Company consider that the fair values of the redemption options at the date of issuance of the notes and at December 31, 2011 and 2010 are insignificant.

During the year ended December 31, 2010, the Group repurchased fixed rate senior notes with the carrying amount of US\$197,395,000 (approximately HK\$1,539,681,000) at the market price, with the direct attributable cost of approximately HK\$21,863,000. The net gain of the repurchase was approximately HK\$35,875,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognized and movements thereon during the current and prior years:

	Fair value adjustment of investment properties HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At January 1, 2010	8,076,179	66,804	8,142,983
Exchange adjustments	342,347	5,108	347,455
Charge (credit) to profit or loss (note 10)	1,473,625	(5,027)	1,468,598
At December 31, 2010	9,892,151	66,885	9,959,036
Exchange adjustments	392,738	5,434	398,172
Charge to profit or loss (note 10)	596,307	—	596,307
At December 31, 2011	10,881,196	72,319	10,953,515

Other temporary differences mainly represent the temporary differences arising from the construction costs capitalized in investment properties under construction, properties under development for sales and properties held for sales which were deductible for tax purpose in the year those costs incurred.

As at December 31, 2010, the Group had estimated unused tax losses of HK\$116,880,000 available for offset against future profits and the unused tax losses would expire in 2015. No deferred tax asset has been recognized as at December 31, 2010 due to the unpredictability of future profit streams. There were no estimated unused tax losses as at December 31, 2011.

The Group had no significant unprovided deferred tax during the two years ended December 31, 2011 and 2010 and at the end of the reporting periods.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately HK\$17,034,153,000 (2010: HK\$14,889,051,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
Authorized:		
At January 1, 2010, December 31, 2010 and December 31, 2011	5,000,000,000	500,000
Issued and fully paid:		
At January 1, 2010, December 31, 2010 and December 31, 2011	1,809,077,000	180,907

None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the year.

28. CONTINGENT LIABILITIES

At the end of the reporting period, the contingent liabilities of the Group were as follows:

	2011 HK\$'000	2010 HK\$'000
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Notes)	1,917,608	1,745,712

Notes:

- (a) The guarantees were given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the directors, the fair value of the financial guarantee contracts is not significant. Deposits received on sales of properties prior to the date of revenue recognition are classified as current liabilities in the consolidated statement of financial position.
- (b) The guarantees were secured by the Group's pledged bank deposits of approximately HK\$1,268,000 (2010: HK\$3,557,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. OTHER COMMITMENTS

	2011	2010
	HK\$'000	HK\$'000
Construction commitment contracted for but not provided	758,962	651,895

30. OPERATING LEASE COMMITMENTS

As lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2011	2010
	HK\$'000	HK\$'000
Within one year	14,049	17,067
In the second to fifth year inclusive	9,801	23,676
Over fifth year	—	104
	23,850	40,847

Around 40% (2010: 30%) of the Group's investment properties in Shanghai, namely, Shanghai Concord City Phase I is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants. For the Group's marketing strategy, upon the completion of Shanghai Concord City Phase II north portion ("Phase II North Portion"), the Group will then recruit their target tenants for both Phase I and Phase II North Portion. The construction of Phase II North Portion is anticipated to be completed in the second half of 2012. The properties generated rental yields of average 0.68% (2010: 0.85%) for the year ended December 31, 2011. Leased properties have committed tenants from 1 to 5 (2010: 1 to 6) years.

As lessee

Minimum lease payments paid under operating leases during the year:

	2011	2010
	HK\$'000	HK\$'000
Premises	3,735	3,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. OPERATING LEASE COMMITMENTS — continued

As lessee — continued

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 HK\$'000	2010 HK\$'000
Within one year	4,113	2,022
In the second to fifth year inclusive	6,511	—
	10,624	2,022

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and are fixed for an average of 3 (2010: 3) years.

31. RETIREMENT BENEFITS PLANS

The Group operates a MPF Scheme under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made by both the Group and the employees based on 5% of the employees' salaries (capped at HK\$20,000) and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The total contributions incurred in this connection for the year was approximately HK\$4,269,000 (2010: HK\$4,059,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was conditionally adopted pursuant to a resolution passed on February 5, 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Scheme will expire on February 5, 2017.

Under the Scheme, the board of directors of the Company may grant options to directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme is not permitted to exceed 180,000,000 shares, being 10% of the shares of the Company in issue as at the date on which the shares of the Company are listed on the Stock Exchange, which can be refreshed according to the Scheme. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the Scheme shall not exceed 30% of the issued share capital of the Company from time to time.

The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders in accordance with the Scheme. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the shares in the Company issued and to be issued upon exercise of all options to such person in the 12-month period up to and including the date of grant in excess of 0.1% of the shares of the Company in issue and with a value (based on the closing price of the shares of the Company at the offer date of each offer) in excess of HK\$5,000,000, such grant of options must be approved in advance by the Company's shareholders in accordance with the Scheme.

An option may be exercised at any time during the period to be determined and notified by the directors to the grantee and in the absence of such determination, from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses and ten years from the date of offer of that option. A consideration of HK\$1 is payable upon acceptance of the offer.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the share; the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

Pursuant to the announcement dated January 17, 2011 ("Grant Date"), 20,000,000 options (the "Options") to subscribe for the Company's ordinary shares of HK\$0.10 each (the "Shares") with the exercise price of HK\$2.67 each were granted to certain eligible participants (the "Grantees"). The Grantees are consultants which are responsible for the investor relations of the Group. None of the Grantees is a director, chief executive or substantial shareholder of the Company, or any of their respective associates. The option is exercisable from January 17, 2013 to March 22, 2013 ("Exercise Period"). The closing price of the Company's Shares at Grant Date was HK\$2.64.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SHARE OPTION SCHEME — continued

In the opinion of the directors of the Company, these share options were granted to the consultants for rendering consultancy services in respect of seeking potential investors to acquire a certain sum of the Company's share on or before January 16, 2013 ("Target"). The directors of the Company believe that the strategy to issue share options in return of consultancy services can bring benefits to the Group, without damaging the Group's operating cash flows and liquidity.

The exercise of the share options shall be conditional upon the Target being achieved within the period from January 17, 2011 to January 16, 2013. When the above Target is achieved, the share options will become exercisable within the Exercise Period.

Management determines that the fair value of the services received are amounting to approximately HK\$15,850,000, which is expensed on a straight-line basis over the vesting period, with a corresponding increase in share option reserve. The Group would record an expense based on the fair value of services received and would not be required to determine the fair value of the share options granted to the Grantees since the fair value of the services could be reliably measured.

During the year ended December 31, 2011, share-based payment expenses of approximately HK\$7,567,000 (2010: Nil) is recognized in the profit or loss.

The following table discloses movements of the Company's share options held by the Grantees during the year.

	2011
Outstanding at the beginning of the year	—
Granted during the year	20,000,000
Outstanding at the end of the year	20,000,000
Exercisable at the end of the year	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions during the year with the Pacific Concord Holding Limited ("PCH"):

Nature of transactions

	2011 HK\$'000	2010 HK\$'000
Office premises expenses (Note)	43	42

Note: On July 22, 2011, a tenancy agreement (the "Tenancy Agreement") for the use of the principal place of business of the Company in Hong Kong was entered into between the landlord, a subsidiary of PCH, of which ultimate shareholder is Mr. Wong, and the Group. The Tenancy Agreement is effective from August 1, 2011 to July 31, 2014.

On the same date, a sharing agreement was entered into between a subsidiary of PCH and the Group which both parties agreed that the principal office will be divided into two equal halves and each party will be entitled to occupy, use and possess half of the principal office. The rental and the electricity fee, fixed line telephone charge and other charges will be shared equally by the parties.

Compensation of key management personnel

The directors of the Company considered that the directors are the key management of the Group. The remuneration of key management personnel of the Group during the year was as follows:

	2011 HK\$'000	2010 HK\$'000
Short-term benefits	1,534	1,530

The remuneration of directors is determined by the remuneration committee with reference to the involvement and the business performance of the directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. LIST OF SUBSIDIARIES

Details of the Company's principal subsidiaries as at December 31, 2011 and 2010 are as follows:

Name of the company	Country of establishment	Equity interest attributable to the Group as at December 31,		Issued and fully paid registered and paid-up capital as at December 31, 2011 and 2010	Principal activities
		2011	2010		
Jingan Concord [†]	PRC	100%	100%	US\$68,000,000	Property development and investment
Minhang Concord [†]	PRC	100%	100%	US\$99,600,000	Property development and investment
Property Management Co ^{##}	PRC	100%	100%	RMB500,000	Property management service
Chongqing Ace Blossom Real Estate Co., Ltd. [†]	PRC	100%	100%	US\$50,000,000	Property development and investment
Chongqing Mid-Levels No. 1 Real Estate Co., Ltd. [†]	PRC	100%	100%	US\$50,000,000	Property development and investment
Chongqing Peak No. 1 Real Estate Co., Ltd. [†]	PRC	100%	100%	US\$50,000,000	Property development and investment
Chongqing Riverside Real Estate Co., Ltd. [†]	PRC	100%	100%	US\$50,000,000	Property development and investment
Chongqing Yangtze-Jialing River Real Estate Co., Ltd. [†]	PRC	100%	100%	US\$50,000,000	Property development and investment
Chongqing Zhengtian Investment Ltd. ^{***}	PRC	100%	100%	RMB51,000,000	Property development and investment

[†] Wholly foreign owned enterprises registered in the PRC.

^{##} A limited liability company registered in the PRC.

* English name is for identification purpose only.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. EVENT AFTER THE REPORTING PERIOD

On January 27, 2012, the Company and Hillwealth Holdings Limited (the “Subscriber”), a company incorporated in the British Virgin Islands and wholly owned by Mr. Wong, entered into a conditional subscription agreement pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for a convertible note of HK\$500,000,000 in cash. The convertible note is interest bearing at 5% per annum and matures on the fourth anniversary of the issue date. The conversion price of the convertible note is HK\$2.42 per share. The net proceeds from the issue of the convertible note of approximately HK\$499,000,000 will be used for general working capital of the Group.

On February 21, 2012, the Company and the Subscriber entered into a supplemental agreement to extend the maturity date of the convertible note to sixth anniversary of the issue date. The issuance of the convertible note has been approved by the extraordinary general meeting of the Company held on March 16, 2012 and the subscription became unconditional. Details are set out in the Company’s circular dated February 29, 2012.

The convertible note contains the components of liability and embedded derivatives that are required to be separately accounted for in accordance with HKAS 39 “Financial instruments: Recognition and measurement”. The Company is in the process of determining the fair value of the components of convertible note and is not yet in a position to disclose the finalized financial effects.

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To the Initial Purchaser as to PRC law

Jingtian & Gongcheng
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US\$150,000,000

CHINA PROPERTIES GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

13.50% Senior Notes due 2018

Offering Price: 99.117%

OFFERING CIRCULAR

The date of this offering circular is October 8, 2013.

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OUTSIDE THE UNITED STATES.**

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