



Shui On Development (Holding) Limited

(incorporated in the Cayman Islands with limited liability)

Shui On Land Limited 瑞安房地產有限公司

(incorporated in the Cayman Islands with limited liability)

US\$178,980,000 8.700% Senior Notes due 2018
US\$87,020,000 9.750% Senior Notes due 2020
guaranteed by Shui On Land Limited
Issue Price for the 2018 Notes: 100%
Issue Price for the 2020 Notes: 100%

Shui On Development (Holding) Limited (the “**Issuer**”), incorporated in the Cayman Islands with limited liability, is offering US\$178,980,000 aggregate principal amount of 8.700% Senior Notes due 2018 (the “**2018 Notes**”) and US\$87,020,000 aggregate principal amount of 9.750% Senior Notes due 2020 (the “**2020 Notes**”, together with the 2018 Notes, the “**Notes**”). The 2018 Notes will bear interest at the rate of 8.700% per year and will mature on May 19, 2018. The 2020 Notes will bear interest at the rate of 9.750% per year and will mature on May 19, 2020. The Notes are senior obligations of the Issuer and are guaranteed by Shui On Land Limited (the “**Parent Guarantor**”, and such guarantee, the “**Parent Guarantee**”).

The Notes will be senior unsecured obligations and will rank equally in right of payment with all of the Issuer’s unsecured, unsubordinated indebtedness (subject to any priority right of such indebtedness pursuant to applicable law). However, because the Notes will not be guaranteed by any of the Parent Guarantor’s subsidiaries (unless such subsidiaries also guarantee any other indebtedness of the Issuer or the Parent Guarantor), the Notes will be effectively subordinated to all existing and future indebtedness and other obligations of the Parent Guarantor’s subsidiaries (other than the Issuer). The Notes will also be effectively subordinated to the Issuer and the Parent Guarantor’s secured indebtedness to the extent of assets serving as security for such secured indebtedness. The Issuer may at its option redeem the Notes, in whole or in part, under certain conditions. See page 245 of the “Description of the 2018 Notes” and page 304 of the “Description of the 2020 Notes”.

The Issuer is concurrently conducting (1) an exchange offer for its outstanding US\$875,000,000 9.750% senior notes due 2015 (the “**Concurrent USD Exchange Offer**”); and (2) an exchange and tender offer for its outstanding RMB3,500,000,000 US\$ settled 7.625% senior notes due 2015 (the “**Concurrent RMB Exchange and Tender Offer**”). Pursuant to the Concurrent USD Exchange Offer and the Concurrent RMB Exchange and Tender Offer, the Issuer expects to issue additional 2018 Notes and additional 2020 Notes (together the “**Exchange Notes**”). Any Exchange Notes will have the same terms as and form a single class with the respective Notes issued in this offering.

Investing in the Notes involves significant risks. See “Risk Factors” beginning on page 33 for a discussion of factors that you should consider carefully before investing in the Notes.

Approval in-principle has been received for the listing of the Notes on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Offering Memorandum. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Parent Guarantor or the Notes.

The Notes and the Parent Guarantee have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”). The Notes may not be offered, sold, pledged or otherwise transferred in the United States or to, or for the account or benefit of, U.S. persons (as such terms are defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold by the Joint Lead Managers only to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions”.

The Issuer expects to make delivery of the Notes, on or about May 19, 2014, being the 13th business day following the date of this Offering Memorandum (referred to as T + 13).

The Notes will be evidenced by global notes (each a “**Global Note**”) in registered form, which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream**”). Beneficial interests in each Global Note will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream and their respective accountholders. Except in the limited circumstances set out herein, individual certificates for Notes will not be issued in exchange for beneficial interests in a Global Note.

The Notes will not be rated by any rating agency.

Joint Bookrunners and Joint Lead Managers

Standard Chartered Bank

UBS

April 30, 2014

The Issuer and the Parent Guarantor have not authorized anyone to provide you with information that is different from what is contained in this Offering Memorandum, and the Parent Guarantor and the Issuer take no responsibility for any other information that others may give you. Any information or representation not made in this Offering Memorandum must not be relied on by you as having been authorized by the Parent Guarantor, the Issuer or the Joint Lead Managers, any of their respective directors, officers or representatives, or any other person or party involved in the Offering Memorandum.

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

IN CONNECTION WITH THIS OFFERING, STANDARD CHARTERED BANK, AS THE STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. 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 STANDARD CHARTERED BANK, AS THE STABILIZING MANAGER, AND NOT FOR OR ON BEHALF OF THE ISSUER.

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

This Offering Memorandum is provided solely for the purpose of enabling you to consider a purchase of the Notes. You should read this Offering Memorandum before making a decision regarding whether or not to purchase the Notes. You must not use this Offering Memorandum for any other purpose or disclose any information in this Offering Memorandum to any other person. This Offering Memorandum is personal to each prospective investor and does not constitute an offer to any other person or to the public generally to purchase or otherwise acquire the Notes.

Notwithstanding anything to the contrary contained herein, a prospective investor (and each employee, representative, or other agent of a prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this Offering Memorandum and all materials of any kind that are provided to the prospective investor relating to such tax treatment and tax structure. This authorization of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

The Parent Guarantor and the Issuer have prepared this Offering Memorandum, and they are solely responsible for its contents. Each person receiving this Offering Memorandum acknowledges that such person has not relied on Standard Chartered Bank and UBS AG, Hong Kong Branch (each a “**Joint Bookrunner**” and a “**Joint Lead Manager**”), DB Trustees (Hong Kong) Limited (the “**Trustee**”), the Agents (as defined in “*Description of the 2018 Notes*” and “*Description of the 2020 Notes*”) or any other person affiliated with the Joint Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth in “*Plan of Distribution*”.

No representation or warranty, express or implied, is made by the Joint Lead Managers, the Trustee, the Agents or any of their affiliates, directors or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisors have independently verified any of the information contained in this Offering Memorandum and assume no responsibility for its accuracy or completeness. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisors accept any responsibility for the contents of this Offering Memorandum or for any statement made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or on their behalf in connection with the Issuer or the Parent Guarantor or the issue and offering of the Notes or the Parent Guarantee. The Joint Lead Managers, the Trustee and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Offering Memorandum or any such statement. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisors undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Memorandum or to advise any investor or potential investor in the Notes of any information coming to the attention of the Joint Lead Managers, the Trustee or the Agents.

Each person receiving this Offering Memorandum acknowledges that: (i) such person has been afforded an opportunity to request from the Parent Guarantor and the Issuer 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 Joint Lead Managers, the Trustee or the Agents or any person affiliated with the Joint Lead Managers, the Trustee or the Agents 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 Parent Guarantee (other than as contained herein and information given by our duly authorized officers and employees in connection with investors’ examination of us 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 Joint Lead Managers.

None of the Parent Guarantor, the Issuer, the Joint Lead Managers, the Trustee or the Agents is making an offer to sell the Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this Offering Memorandum and the offering of the Notes may in certain jurisdictions be restricted by law. Persons into whose possession this Offering Memorandum comes are required by the Parent Guarantor and the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this Offering Memorandum, see “*Plan of Distribution*”.

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

The Parent Guarantor and the Issuer reserve the right to withdraw the offering of the Notes at any time, and the Joint Lead Managers reserve the right to reject any commitment to purchase the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Joint Lead Managers and certain related entities may acquire for their own account a portion of the Notes.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

This Offering Memorandum has been prepared using a number of conventions, which you should consider when reading the information contained herein. Other than “*Description of the 2018 Notes*” and “*Description of the 2020 Notes*”, when we use the terms “**we**”, “**us**”, “**our**”, and words of similar import, we are referring to Shui On Land Limited (“**Shui On Land**” or the “**Company**”), or to Shui On Land and its consolidated subsidiaries, as the context requires. References to the “**Group**” are to Shui On Land and its subsidiaries and associated companies and, with respect to the period before Shui On Land became the holding company of such subsidiaries (or before such associated companies became associated companies of Shui On Land), the entities which carried on the business of the present Group at the relevant time. Shui On Development (Holding) Limited is referred to in this Offering Memorandum as the “**Issuer**”.

Market data and certain industry forecast and statistics in this Offering Memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us, the Issuer or the Joint Lead Managers or their directors and advisors nor the Trustee or the Agents, and neither we, the Joint Lead Managers nor our or their respective directors and advisors nor the Trustee or the Agents 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.

The statistics set forth in this Offering Memorandum relating to the PRC and the property industry in the PRC were taken or derived from various government and private publications. Neither we, the Issuer nor the Joint Lead Managers make any representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the statistics herein may be inaccurate and should not be unduly relied upon.

In this Offering Memorandum, all references to “S\$” and “Singapore dollars” are to Singapore dollars, the official currency of the Republic of Singapore (“**Singapore**”); 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 (the “**PRC**”).

We record and publish our financial statements in Renminbi. Unless otherwise stated in this Offering Memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.0537 to US\$1.00, the noon buying rate indicated in the Federal Reserve H.10 Statistical Release on December 31, 2013. All such translations in this Offering Memorandum are provided solely for the investors’ convenience and no representation is made that Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars, or vice versa, at any particular rate or at all. For further information relating to exchange rates, see “*Exchange Rate Information*”.

References to “PRC” and “China”, for the purposes of this Offering Memorandum, are to the People’s Republic of China which, except where the context otherwise requires, does not include Taiwan, Hong Kong and Macau Special Administrative Regions. “PRC government” or “State” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them.

Totals presented in this Offering Memorandum may not tally correctly due to the rounding of numbers.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains forward-looking statements, including, without limitation, words and expressions such as “expect”, “believe”, “plan”, “intend”, “aim”, “estimate”, “project”, “anticipate”, “seek”, “predict”, “may”, “should”, “will”, “would” and “could” or similar words or statements, in particular, in the sections entitled “*Business*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” in this Offering Memorandum in relation to future events, our future financial, business or other performance and development, strategy, plans, objectives, goals and targets, the future development of our industry and the future development of the general economy of our key markets and globally.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this Offering Memorandum and with respect to the following:

- changes in laws and PRC governmental regulations, policies and approval processes in the regions where we develop or manage our projects;
- changes in economic, political and social conditions and competition in the cities we operate in, including a downturn in the property markets in China;
- our business and operating strategies;
- our capital expenditure plans;
- various business opportunities that we may pursue;
- our dividend policy;
- our operations and business prospects;
- our financial condition and results of operations;
- the industry outlook generally;
- our proposed completion and delivery dates for our projects;
- changes in competitive conditions and our ability to compete under these conditions;
- catastrophic losses from fires, floods, windstorms, earthquakes, or other adverse weather conditions, diseases or natural disasters;
- our ability to further acquire suitable sites and develop and manage our projects as planned;
- availability and changes of loans and other forms of financing;
- departure of key management personnel;
- performance of the obligations and undertakings of the independent contractors under various construction, building, interior decoration and installation contracts;
- exchange rate fluctuations;

- currency exchange restrictions; and
- other factors beyond our control.

This list of important factors is not exhaustive. Additional factors that could cause the actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*”. When evaluating any statement made in this Offering Memorandum, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this Offering Memorandum, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Offering Memorandum might not occur in the manner we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information.

In this Offering Memorandum, statements of or references to our intentions or those of any of our directors are made as of the date of this Offering Memorandum. Any such intentions may change in light of future developments.

GLOSSARY

This glossary contains terms used in this Offering Memorandum as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

6.875% Senior Notes	RMB3,000 million in aggregate principal amount of US\$ settled 6.875% senior notes issued by the Issuer on December 23, 2010 and repaid in full in December 2013
2017 Senior Notes	RMB2,500 million in aggregate principal amount of 6.875% senior notes due 2017 issued by the Issuer on February 26, 2014
7.625% Senior Notes	RMB3,500 million in aggregate principal amount of US\$ settled 7.625% senior notes due 2015 issued by the Issuer on January 26, 2011
8% Senior Notes	S\$250 million in aggregate principal amount of 8% senior notes due 2015 issued by Shui On Development (Singapore) Pte. Ltd. on January 26, 2012
9.75% Senior Notes	US\$875 million in aggregate principal amount of 9.75% senior notes due 2015 issued by the Issuer, of which US\$400 million were issued on February 16, 2012, an additional US\$75 million were issued on February 29, 2012 and a further US\$400 million were issued on August 6, 2012
10.125% Perpetual Capital Securities	US\$500 million in aggregate principal amount of 10.125% perpetual capital securities issued by the Issuer on December 10, 2012
average rental	average rental on a gross basis, unless otherwise stated
average selling price (ASP)	average selling price on a gross basis, unless otherwise stated
CBD	Central Business District
completed property developments	completed property developments represent properties for which construction of all constituent buildings has been completed and which are available for lease or for sale
Concurrent RMB Exchange and Tender Offer	the offer by the Issuer to eligible holders of the 7.625% Senior Notes to exchange and/or purchase for cash outstanding 7.625% Senior Notes
Concurrent USD Exchange Offer	the offer by the Issuer to eligible holders of the 9.75% Senior Notes to exchange 9.75% Senior Notes
Convertible Bonds	RMB2,720 million US\$ Settled 4.50% convertible bonds due 2015 issued by Shui On Land on September 24, 2010

Dalian Entities	means Innovate Zone Group Limited, Richcoast Group Limited, Teamachieve Holdings Limited, Tennick Holdings Limited, Timeglobe Holdings Limited, Hopeful Zone Investments Limited, Asia Great Investment Limited, Charmful Investment Limited, Garco Investment Limited, Sinoco Investment Limited, Many Praises Dalian Limited, 大連乾通科技發展有限公司 (Dalian Qiantong Science & Technology Development Co. Ltd.), 大連瑞聖軟件發展有限公司 (Dalian Ruisheng Software Development Co. Ltd.), 大連德蘭軟件發展有限公司 (Dalian Delan Software Development Co. Ltd.), 大連嘉道科技發展有限公司 (Dalian Jiadao Science & Technology Development Co. Ltd.), 大連軟件園瑞安發展有限公司 (Dalian Software Park Shui On Fazhan Co., Ltd.), 大連軟件園瑞安開發有限公司 (Dalian Software Park Shui On Kaifa Co., Ltd.), 大連軟件園中興開發有限公司 (Dalian Software Park Zhong Xing Kaifa Co., Ltd.), 大連軟件園榮泰開發有限公司 (Dalian Software Park Rong Tai Kaifa Co., Ltd.), 大連軟件園榮源開發有限公司 (Dalian Software Park Rong Yuan Kaifa Co., Ltd.) and 大連軟件園榮達開發有限公司 (Dalian Software Park Rong Da Kaifa Co., Ltd.). The English names in parentheses for the Chinese companies are provided for identification purposes only
estimated leasable GFA	in relation to projects where our Group has obtained planning and/or construction permits for the project, the leasable GFA information with respect to these projects is estimated based on our Group's current development plans in accordance with the planning and/or construction permits issued by the relevant authorities in relation to projects where our Group has not yet obtained any of the above permits, the leasable GFA information with respect to these projects is estimated based on our Group's current development plans with references to the plot ratio in the land grant contracts
estimated saleable GFA	in relation to projects where our Group has not yet obtained pre-sale permits but has obtained planning and/or construction permits for the project, the saleable GFA information with respect to these projects is estimated based on our Group's current development plans in accordance with the planning and/or construction permits issued by the relevant authorities in relation to projects where our Group has not yet obtained any of the above permits, the saleable GFA information with respect to these projects is estimated based on our Group's current development plans with references to the plot ratio in the land grant contracts
Exchange Notes	the notes that will be issued pursuant to the Concurrent USD Exchange Offer and the Concurrent RMB Exchange. Any Exchange Notes will have the same terms as and form a single class with the respective Notes issued in this offering

First Three-Year Plan	a plan launched by us in mid-2009, which aimed at providing accelerated but sustainable growth and maintaining a balance between value creation for the long term and cash generation in the short to medium term. The First Three-Year Plan for 2010-2012 aimed to achieve a balance between standardization of product design while maintaining customization of certain high-end projects, maintaining strong cash flow and relatively low gearing ratio, decentralization of decision-making and project-based management, maintaining geographic and earnings based diversity and forging strategic partnerships, in order to expedite project development and to increase our project completion rate consistently and continuously
GFA	gross floor area
KIC	Knowledge and Innovation Community
Initial Portfolio	Shanghai Xintiandi, Xintiandi Style, 1&2 Corporate Avenue, Phase I, 5 Corporate Avenue, Phase II (Lot 127), Shui On Plaza and THE HUB
landbank	landbank represents our completed property developments, properties under development and properties held for future development and properties to which we have the rights to develop, in each case excluding properties sold and delivered to purchasers
LAT	PRC land appreciation tax
leasable GFA	in relation to completed property projects for lease, the total GFA shown in the relevant completion and inspection certificates
mu	one mu equals approximately 666.67 sq.m.
properties under development	properties under development represent incomplete property projects that are under construction or design and are in the delivery phase
property held for future development	properties held for future development represent projects that are in the planning stage or for which the site is under relocation, and, in each case, are not expected to be completed within three years
SAFE	State Administration of Foreign Exchange
saleable GFA	in relation to completed property projects for sale, the total GFA shown in the relevant completion and inspection certificates in relation to projects where we have obtained pre-sale permits, the saleable GFA information refers to the saleable GFA as shown in the pre-sale permits
Second Three-Year Plan	continuing from the First Three-Year Plan, a plan launched by us in early 2013, which will progressively unfold from 2013 to 2015 and aims at the acceleration of the development of the cleared sites in Shanghai and other cities, the realization of value of our investment property portfolio for sustainable earnings growth and the deleveraging of our balance sheet

sq.m.

square meters

total GFA or total gross floor
area

the above-ground and underground saleable and/or leasable GFA contained within the external walls of any building at each floor level and the whole thickness of the external walls, and includes GFA attributable to non-controlling interest holders, if any, of the relevant project together with other non-leasable and non-saleable GFA

SUMMARY

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

OVERVIEW

We are one of the leading property developers in the PRC and the flagship property company of the Shui On Group, which consists of Shui On Company Limited (“**SOCL**”) and its subsidiaries (the “**Shui On Group**”). We engage principally in the development, sale, leasing, management and the long-term ownership of high-quality residential, office, retail, entertainment and cultural properties in the PRC, utilizing our expertise and experience in developing large-scale integrated property projects based on master plans that we have developed in conjunction with the local governments. We are actively involved in the city planning aspects of most of our projects. We believe our projects are characterized by the redevelopment and transformation of the neighborhoods and communities of the cities in which our projects are located. We strategically retain long-term ownership of certain commercial properties that we have developed, and are committed to enhancing the value of the projects on a continuing basis through comprehensive property management. Our past developments include the well-known restoration project, Shanghai Xintiandi, one of the landmarks in Shanghai.

We trace our origins to the Shui On Group, a Hong Kong-based privately-held diversified group that is primarily engaged in the real estate development, construction contracting and construction materials businesses. Under the leadership of our chairman, Mr. Vincent H. S. Lo (“**Mr. Lo**”), the Shui On Group has over 20 years of experience in property development in mainland China and over 40 years of construction and property development experience in Hong Kong. We were incorporated in the Cayman Islands on February 12, 2004 and our shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”) since October 2006.

We focus on large-scale city-core development projects, primarily strategically-located, mixed-use properties and multi-phase developments with a blend of historic restoration and modern architecture. All of our projects manifest the “Total Community” concept. Endowed with a full range of modern facilities for residential, office, retail, entertainment and leisure, our projects provide a unique environment enabling a “Live-Work-Play” lifestyle. Our aim is to make each of these projects a focal point for the entire city in which it is located.

We expect that Chinese cities will further develop and transform due to the PRC government’s plan of continuing rapid economic development. The continued redevelopment of Chinese cities is in turn expected to generate significant economic value for China, demand for high-end residential and multi-phase developments and opportunities for well capitalized and reputable property companies. As Chinese cities are built into modern commercial and service centers, we believe they will become economic hubs to their surrounding areas, which will be increasingly connected by a modern transportation infrastructure. An integral part of the transformation of these cities is efficient and innovative master planning of land utilization. We believe that our business model, built upon large-scale, city-core development projects, will position us to benefit from the expected emergence of modern cities in China.

In mid-2009, we launched our First Three-Year Plan, which was designed to accelerate sustainable growth and maintain a closer balance between value creation for the longer term and cash generation in the short-to-medium term. The main objective of the First Three-Year Plan was to expedite project development and increase project completion rate consistently and continuously. However, we did not achieve our goal of delivering one million square meters of properties in 2012 due to market conditions. Various phases of developments in different projects have been deferred to optimize our

inventory level and capital expenditure. For our Second Three-Year Plan, which will progressively unfold from 2013 to 2015, our overarching goals are the acceleration of the development of the cleared sites in Shanghai and other cities, the realization of value of our investment property portfolio for sustainable earnings growth and the deleveraging of our balance sheet.

As of December 31, 2013, we have obtained land use rights certificates, or have entered into land grant contracts or legally binding master agreements with district governments, for approximately 12.5 million sq.m. of landbank. These land parcels fall under our eight major multi-phase projects with an aggregate estimated leasable and saleable GFA of approximately 10.3 million sq.m. (of which approximately 7.5 million sq.m. is attributable to us) and approximately 2.2 million sq.m. of car parks and other public facilities. In order to develop the Dalian Tiandi project, we entered into a joint venture agreement with SOCAM Development Limited (“**SOCAM**”) and its subsidiaries (together with SOCAM, the “**SOCAM Group**”) and the Yida Group Company Limited (“**Yida**”) and its subsidiaries (together with Yida, the “**Yida Group**”). This project in Dalian city is expected to have approximately 3.4 million sq.m. of aggregate GFA, of which 48.0% will be attributable to us. Among such 3.4 million sq.m. of aggregate GFA, we have obtained land use rights certificates of two plots of land with an aggregate GFA of 3.1 million sq.m. For the remaining plots of land, we plan to participate in the bidding or public auction, once they are ready for sale. We expect that the aggregate GFA on such remaining plots of land for the Dalian Tiandi project will be approximately 0.3 million sq.m.

As of December 31, 2013, we have eight major multi-phase projects in various stages of development located in the Chinese cities of Shanghai, Wuhan, Chongqing, Foshan and Dalian. Shanghai is located in the economically vibrant Yangtze River Delta, Wuhan is a major transportation hub located in central China and Chongqing is a major commercial and industrial center in southwestern China. Foshan, located in the Pearl River Delta, one of the major economic regions and manufacturing centers in China, is a major city in Guangdong Province and is close to Guangzhou city. Dalian, located on the coast of Bohai Bay, is a major city in Liaoning Province and a regional economic center in northeast China.

Current projects

- ***The Shanghai Taipingqiao project*** is a city-core development project consisting of office, residential, retail, hotel, entertainment and cultural properties in the heart of Shanghai. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 1.3 million sq.m., of which approximately 332,000 sq.m. had been sold and disposed of as of December 31, 2013. This project comprises:
 - A historic restoration zone (Lot 109 and Lot 112, or Shanghai Xintiandi), which has been open since 2001 and was fully completed in 2002 and a new shopping mall (Lot 113, or Xintiandi Style), which was also completed in 2010;
 - A corporate headquarters zone (known as Corporate Avenue), of which Lot 110, or 1&2 Corporate Avenue, consisting of retail and office properties, was completed in 2004, and of which Lot 126 and Lot 127, or 5 Corporate Avenue and 3 Corporate Avenue, respectively, consisting of retail and office properties, with Lot 126 completed and subsequently disposed of and delivered to China Life Trustees Limited in December 2013 and Lot 127 expected to be completed in 2014;
 - An up-market residential zone, of which the first phase (Lot 117, or Lakeville) was completed in 2003, the second phase (Lot 114, or Lakeville Regency) was completed in 2006 and the third phase (Lot 113, or Casa Lakeville) was completed in 2010; and
 - A commercial zone, construction of which will commence following the completion of the relocation of existing residents.

The four zones referred to above are all located around a man-made lake and landscaped area which cover an area of approximately 56,000 sq.m.

In addition to the above, on September 9, 2011, we entered into an agreement with the Shui On Group to acquire 80% interest in Shui On Plaza, 24% interest in Xintiandi Plaza Business and 66.7% interest in Langham Xintiandi Hotel. The acquisition was completed on March 16, 2012 and Shui On Plaza and Langham Xintiandi Hotel, which we acquired majority interest in, were added to the portfolio of the Shanghai Taipingqiao project.

- ***The Shanghai Rui Hong Xin Cheng project***, also known as Shanghai Rainbow City, has been enlarged through our successful purchase of all the equity interests in Shanghai Baili Property Development Company Limited and the obtaining of the title with respect to the land use rights of Lot 167A and Lot 167B, Xingang, Hongkou District, Shanghai in June 2010. Upon completion, we expect this entire project to have a total leasable and saleable GFA of approximately 1.7 million sq.m. according to the newly approved master plan, of which approximately 451,000 sq.m. had been sold as of December 31, 2013. Shanghai Rui Hong Xin Cheng will redevelop the existing residential neighborhoods into a mixed-use large-scale community. Shanghai Rui Hong Xin Cheng is located within the Inner Ring Viaduct of Shanghai with public transportation links, including its own dedicated metro station and major roads. Upon completion, we expect the project will comprise high rise residential buildings, commercial shopping complexes, offices and schools.
- ***The Shanghai KIC project***, also known as the Shanghai Chuangzhi Tiandi project, comprises retail, entertainment and sports facilities, office buildings and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 0.5 million sq.m., of which approximately 210,000 sq.m. had been sold as of December 31, 2013. This project is intended to inspire innovation and entrepreneurship in a “Lifestyle of Health and Sustainability” (LOHAS), supported by retail, entertainment and sporting facilities to create a “Live-Work-Play-Learn” lifestyle. The project is located close to 14 major universities and colleges in the northeast of downtown Shanghai, including some of China’s leading universities such as Fudan University and Tongji University. The project will provide a “plaza area” comprising office buildings, learning centers, exhibition halls, conference and convention facilities, and commercial outlets. These are integrated and designed to function as facilities and spaces for recreation, leisure, education, training, culture, as well as, a “Live and Work” area and a mixed-use area comprising office buildings, retail shops and residential accommodations.
- ***THE HUB*** is an important development project comprising commercial, retail, exhibition and performance facilities leveraging on the traffic and convenience of the Hongqiao Transportation Hub. Upon completion, we expect to have a total leasable and saleable GFA of approximately 282,000 sq.m. The project is situated adjacent to Hongqiao Transportation Hub, which we expect will become an important economic center of the Yangtze River Delta and link Shanghai to the rest of the PRC. Based on the latest proposed development plan of the Shanghai government, the Hongqiao Transportation Hub is expected to be supported by a strong transportation network of an international airport, high speed inter-city trains, maglev train, subway lines and a highway network, which extends the one hour catchment population to 75 million people.
- ***The Wuhan Tiandi project*** is a city-core development project comprising retail, food and beverage and entertainment facilities, office buildings and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 1.4 million sq.m., of which approximately 386,000 sq.m. had been sold as of December 31, 2013. Located between Shanghai and Chongqing at the confluence of the Han River and the Yangtze River, Wuhan is a major transportation hub in inland China and is the capital of Hubei Province. The project comprises two main sites, Site A and Site B, which will include Grade A office buildings, retail facilities, hotel and residential properties.

- ***The Chongqing Tiandi project*** is a city-core development project comprising office buildings, exhibition and conference facilities, retail and entertainment outlets, hotels and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 2.8 million sq.m., of which approximately 716,000 sq.m. had been sold as of December 31, 2013. The Chongqing Tiandi project is situated on a hillside on the south bank of the Jialing River, just upstream of the confluence of the Yangtze and Jialing Rivers. We expect this project will help support and service Chongqing's extensive manufacturing and service industries. Chongqing Tiandi will be integrated with Chongqing's nearby central business district via a light rail system and major roads. The main features, in addition to modern high-quality office buildings, are expected to include a commercial core comprising business facilities such as an exhibition center and luxury hotels, a large residential area, entertainment and cultural properties, as well as a man-made lake.
- ***The Foshan Lingnan Tiandi project*** is a city-core development project comprising office, retail, hotel, cultural facilities and residential properties. The project is expected to have nearly 1.5 million sq.m. of leasable and saleable GFA, of which approximately 98,000 sq.m. had been sold as of December 31, 2013. The project is planned for development in five phases over a period of ten years. Besides our recent strategic partnership with Mitsui Fudosan Residential Co., Ltd. ("**Mitsui**") (see "*Business — Forging and building on strategic partnerships*"), we may also invite other strategic partners to co-invest in this Foshan Lingnan Tiandi project if, and when, suitable opportunities arise, but no definite plans or terms have been fixed.
- ***The Dalian Tiandi project*** is a development project consisting of software offices, residential and commercial properties, training centers, hotels and an area of a Shanghai Xintiandi type development. Upon completion, we expect this project to have an aggregate leasable and saleable GFA of approximately 3.1 million sq.m., subject to our success in acquiring the land with an expected GFA of 0.3 million sq.m. through competitive bidding process. As of December 31, 2013, approximately 109,000 sq.m. had been sold. We have a 48% interest in the Dalian Tiandi project. Our joint venture partners are the Yida Group with a 30% interest and the SOCAM Group with a 22% interest. Dalian, located on the coast of Bohai Bay, is a major city of Liaoning Province and a regional economic center in northeast China.

The projects described above are multi-phase projects at various stages of development. While none of these projects are completed in their entirety, certain developments within these multi-phase projects have been completed. As of December 31, 2013, our completed developments included Shanghai Xintiandi, Lakeville, 1&2 and 5 Corporate Avenue, Lakeville Regency, Casa Lakeville, Xintiandi Style, Shui On Plaza and Langham Xintiandi Hotel, which form a part of the Shanghai Taipingqiao project; Phase 1, Phase 2, Phase 3 and Phase 4 of the Shanghai Rui Hong Xin Cheng project; KIC Village R1 and R2, KIC Plaza Phase 1 and Phase 2, KIC C2 and Lot 311 Phase 1 of the Shanghai KIC project; the above ground area of the Showroom Offices Tower 2 and Tower 3 in D17 of THE HUB; The Riviera I-IV and the Stage 1 of The Riviera V, 3, 4 and 5 Corporate Avenue (Lot B12-1), 2 Corporate Avenue (Lot B11-1/02 Phase 1), 6, 7 and 8 Corporate Avenue (Lots B12-3 and B12-4) and the commercial part (Chongqing Tiandi) of Chongqing Tiandi project; Phase 1, Phase 2 and Phase 3 of The Riverview, Corporate Centre 5 (Lot A5), Wuhan Tiandi B9 and B11 and the retail and entertainment area, Wuhan Tiandi, of the Wuhan Tiandi project; The Regency Phase 1 and Phase 2, The Legendary Phase 1 and Phase 2, Lot D, Lot 13b and the retail and entertainment area, a portion of Foshan Lingnan Tiandi of the Foshan Lingnan Tiandi project and a portion of Phase 1 of the Dalian Tiandi project.

We are one of the few leading property developers with experience in managing large-scale, complex, long-term projects in China. We generally hold a portfolio of quality properties we have developed as strategic, long-term investments. To date, such portfolios comprise office, retail, hotel, entertainment and cultural properties.

In addition, we have a small development, the Hangzhou Xihu Tiandi project, located in Hangzhou. After the disposal of Phase 2 of this project in February 2011, the remaining part of this project comprised retail, food and beverage and entertainment facilities with a GFA of approximately 6,000 sq.m., which was completed in 2003. The project is situated adjacent to Hangzhou's West Lake, a famous and appreciated area of natural beauty in China.

OUR COMPETITIVE STRENGTHS

We believe that our success and future prospects are underpinned by a combination of the following competitive strengths:

- Experienced management team and well-established corporate governance
- Tiandi — unique business model
- Quality landbank in high growth cities
- Strong track record and diversified contracted sales
- Growing investment property portfolio
- Prudent financial management

STRATEGY

In response to the need for balancing value creation and cash flow in a volatile global business environment, together with our vision to be the premier and most innovative property developer in China, we plan to implement the following strategies:

- Standardization and customization to achieve efficiency
- Leveraging China Xintiandi to respond quickly to development opportunities and add value to our portfolio
- Decentralized decision-making and project-based management
- Achieving and maintaining geographic diversity and a well-diversified business mix between properties for sale and investment properties to minimize development risk
- Forging and building on strategic partnerships

PROPOSED SPIN-OFF OF CHINA XINTIANDI AND BROOKFIELD INVESTMENT

On May 28, 2012, Shui On Land announced its plans to dispose of part of Shui On Land's interest in China Xintiandi Limited ("**China Xintiandi**"), a wholly owned subsidiary of Shui On Land, by way of a global offering and separate listing of the shares of China Xintiandi on the Main Board of the Hong Kong Stock Exchange (the "**Proposed China Xintiandi Spin-off**"), and submitted a listing application to the Hong Kong Stock Exchange for the shares of China Xintiandi in connection with the Proposed China Xintiandi Spin-off.

To unlock the underlying asset value of the Group's portfolios, China Xintiandi began operations as a separately managed, wholly owned subsidiary of the Group on March 1, 2013, as part of the process for the Proposed China Xintiandi Spin-off. Shui On Land now operates as a developer focusing on property development and property sales to increase the asset turnover of the Group, leaving the asset management role to China Xintiandi. China Xintiandi and its subsidiaries focus principally on

managing, designing, leasing, marketing, enhancing and redeveloping premium retail, office, entertainment and hotel properties in affluent urban areas in China. We believe that this arrangement will enable each company to focus on its respective separate and distinct core business. See “*Business — Relationship between the Group and China Xintiandi Group*”.

On October 31, 2013, Shui On Land announced that it and China Xintiandi Holding Company Limited (“**CXTD Holding**”), a subsidiary of China Xintiandi, had entered into an investment agreement (the “**Brookfield Investment Agreement**”) with, amongst others, Brookfield Property L.P. and BSREP CXTD Holdings L.P. (“**Brookfield**”). Pursuant to the Brookfield Investment Agreement, Brookfield agreed to invest an aggregate amount of US\$500 million into CXTD Holding and Shui On Land in return for (1) perpetual subordinated convertible securities of CXTD Holding in an aggregate principal amount of US\$500 million (for US\$471 million to be paid to CXTD Holding) and (2) 415 million warrants to subscribe for ordinary shares in the capital of Shui On Land at an exercise price of HK\$2.85 per share (subject to a cap of HK\$3.62 on gain per share and customary anti-dilution adjustments) (for US\$29 million to be paid to Shui On Land) (the “**Initial Brookfield Investment**”) and may invest up to a further US\$250 million in return for an aggregate principal amount of up to US\$250 million of such convertible perpetual securities and up to an additional US\$27.35 million of such warrants (the “**Additional Brookfield Investment**” and together with the Initial Brookfield Investment, the “**Brookfield Investment**”). A group restructuring of certain subsidiaries of Shui On Land was completed on January 20, 2014 such that the Initial Portfolio and certain other commercial property assets of the Group were transferred to CXTD Holding and its subsidiaries (the “**Group Restructuring**”). In addition, in accordance with the terms of the Brookfield Investment Agreement, the Group may transfer to CXTD Holding and its subsidiaries additional assets, which include the Group’s investment properties and fixed assets to the extent that they comprise commercial real estate and, in each case, any connected or ancillary assets and related working capital. On February 17, 2014, Shui On Land announced that the Initial Brookfield Investment had been completed. At the closing for the Initial Brookfield Investment, two senior managing directors of Brookfield were appointed as directors of CXTD Holding and Shui On Land entered into certain agreements with CXTD Holding.

To facilitate the Brookfield Investment and the Proposed China Xintiandi Spin-off, the Issuer sought and obtained consents from the holders of the 7.625% Senior Notes and the 9.75% Senior Notes to amend the indentures and obtained approval from the holders of the 10.125% Perpetual Capital Securities to amend the terms and conditions and trust deed. Additionally, Shui On Singapore sought and obtained consents from holders of the 8% Senior Notes to amend the indenture for those notes. Pursuant to the supplemental indentures executed on December 18, 2013 with respect to the 7.625% Senior Notes, 8% Senior Notes and 9.75% Senior Notes and amended trust deed executed on December 18, 2013 of the 10.125% Perpetual Capital Securities, the Issuer has additional flexibility, among other things, to redesignate China Xintiandi, CXTD Holding and/or any of their subsidiaries as “Unrestricted Subsidiaries”, to enter into arrangements (including in relation to the transfer of assets) with CXTD Holding and its subsidiaries and to allow certain additional categories of “Permitted Investments”, “Permitted Indebtedness” and “Permitted Liens”. By a resolution of the board of directors of the Issuer passed on January 23, 2014, CXTD Holding and its present and future subsidiaries were for the purposes of the 7.625% Senior Notes, 8% Senior Notes, 9.75% Senior Notes and 10.125% Perpetual Capital Securities, redesignated as “Unrestricted Subsidiaries”. CXTD Holding and each of its subsidiaries are “Unrestricted Subsidiaries” under the terms of the 2017 Senior Notes and will be “Unrestricted Subsidiaries” under the terms of the Notes.

In connection with the transactions described above, we may consider other debt or equity investments from third parties in the China Xintiandi Group. We may also consider making strategic disposals of certain assets to third parties. There is no assurance that the Proposed China Xintiandi Spin-off or the Additional Brookfield Investment will occur at all or, if they occur, when they may occur. The Proposed China Xintiandi Spin-off is subject to, among other things, the approval by the Listing Committee of the Hong Kong Stock Exchange, the final decisions of the board of directors of Shui On Land and of the board of directors of China Xintiandi, the approval of the shareholders of Shui On Land and consents from certain of our lenders and joint venture partners. It is not expected that consent will be required or sought from the holders of the Notes.

Additional details of these transactions described above are set out in the announcements of Shui On Land, which are published and available on the website of the Hong Kong Stock Exchange.

RECENT DEVELOPMENTS

Mr. Freddy C.K. LEE resigned as an Executive Director, the Chief Executive Officer and a Managing Director of Shui On Land and Mr. Philip K.T. WONG was appointed as an Executive Director and a Managing Director of Shui On Land, both with effect from January 10, 2014.

During the three months ended March 31, 2014, the Group repaid a total of RMB2,130 million of its bank and other borrowings and incurred a total of RMB3,162 million of additional bank borrowings. On February 26, 2014, the Group issued RMB2,500 million in 6.875% senior notes due 2017.

CONCURRENT TRANSACTIONS

Concurrently with the offering of the Notes, the Issuer is conducting the Concurrent USD Exchange Offer and the Concurrent RMB Exchange and Tender Offer. The Concurrent USD Exchange Offer and the Concurrent RMB Exchange and Tender Offer are being conducted pursuant to an exchange offer memorandum and an exchange and tender offer memorandum, respectively, each dated April 14, 2014. Pursuant to the Concurrent USD Exchange Offer and the Concurrent RMB Exchange and Tender Offer, the Issuer expects to issue Exchange Notes. Any Exchange Notes will have the same terms as and form a single class with the respective Notes issued in this offering. The Exchange Notes are expected to be delivered on the same date as the Notes. The tender offer portion of the Concurrent RMB Exchange and Tender Offer is expected to be completed the following business day after the delivery of the Exchange Notes.

On April 29, 2014, Shui On Land announced that the Issuer will pay the Early Participation Payment (as defined in the offering documents of the Concurrent USD Exchange Offer and Concurrent RMB Exchange and Tender Offer, collectively the “**Concurrent Transactions**”) to any eligible holder of the 9.75% Senior Notes or the 7.625% Senior Notes giving valid instructions for participation in the Concurrent Transactions prior to the Offer Expiration Date (as defined in the offering documents of the Concurrent Transactions) and whose instructions are accepted by the Issuer. Additional details about the Concurrent Transactions and the early participation results of the Concurrent Transactions as of April 28, 2014 (5:00 p.m. London time) are set forth in the announcements of Shui On Land, which are published and available on the website of the Hong Kong Stock Exchange.

CURRENT TRADING AND PROSPECTS

Since December 31, 2013, the PRC government has implemented further macroeconomic controls on the real estate market in the PRC, including imposing restrictions on the number of properties which can be owned by families, which may adversely impact the demand for our properties. See “*Risk Factors*” and “*Regulation*”. Nevertheless, we do not expect our performance will be materially adversely affected by these policies.

GENERAL INFORMATION

Shui On Land was incorporated in the Cayman Islands on February 12, 2004 as an exempted company with limited liability, with a registration number of WK-132754. Its principal place of business in the PRC is at 26/F Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, 200021, PRC. Its place of business in Hong Kong is at 34/F, Shui On Centre 6-8 Harbour Road, Wan Chai, Hong Kong. Its registered office is located at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.

It completed its initial public offering and listing on the Hong Kong Stock Exchange on October 4, 2006. Its ordinary shares are listed under the code “272”. As of December 31, 2013, it had an authorized share capital of US\$30,000,000 divided into 12,000,000 ordinary shares of US\$0.0025 each and an issued and fully paid up share capital of US\$20,004,315 consisting of 8,001,726,189 ordinary shares of US\$0.0025 each (after completion of the rights issue on May 22, 2013).

The Issuer was incorporated in the Cayman Islands on July 27, 2005 as an exempted company with limited liability, with a registration number of WK-152519. Its principal place of business in the PRC is at 26/F Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, 200021, PRC. Its principal place of business in Hong Kong is at 34/F, Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong. Its registered office is located at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.

Our website is www.shuionland.com. Information contained on our website and the website of the Hong Kong Stock Exchange does not constitute part of this Offering Memorandum.

THE OFFERING

Terms used in this summary and not otherwise defined have the meanings given to them in the sections entitled “*Description of the 2018 Notes*” and “*Description of the 2020 Notes*”.

Issuer	Shui On Development (Holding) Limited.
Parent Guarantor	Shui On Land Limited.
Notes Offered	US\$178,980,000 aggregate principal amount of 8.700% Senior Notes due 2018. US\$87,020,000 aggregate principal amount of 9.750% Senior Notes due 2020.
Offering Price	100% of the principal amount of the 2018 Notes. 100% of the principal amount of the 2020 Notes.
Maturity Date	2018 Notes: May 19, 2018 2020 Notes: May 19, 2020
Interest	The 2018 Notes will bear interest at a rate of 8.700% per annum, payable semi-annually in arrears on May 19 and November 19 of each year, commencing November 19, 2014. The 2020 Notes will bear interest at a rate of 9.750% per annum, payable semi-annually in arrears on May 19 and November 19 of each year, commencing November 19, 2014.
Ranking of the Notes	The Notes are: <ul style="list-style-type: none">• general obligations of the Issuer;• senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the Notes;• at least pari passu in right of payment with all other unsecured, unsubordinated Indebtedness of the Issuer (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Parent Guarantor on a senior basis, subject to the limitations described below under the caption “<i>Description of the 2018 Notes — The Parent Guarantee</i>”, “<i>Description of the 2020 Notes — The Parent Guarantee</i>” and in “<i>Risk Factors — Risks Relating to the Notes — The Parent Guarantee, and any guarantee by our subsidiaries of the Notes after the issue date, may be challenged under applicable insolvency of fraudulent transfer laws which may affect the enforceability of such guarantees</i>”;• effectively subordinated to the secured obligations (if any) of the Issuer and the Parent Guarantor, to the extent of the value of the assets serving as security therefor; and• effectively subordinated to all existing and future obligations of the Subsidiaries of the Issuer.

Parent Guarantee	<p>The Parent Guarantor will guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. See “<i>Risk Factors — Risks Relating to the Notes — The Parent Guarantor is a holding company and the Issuer’s operations are limited to holding company and financing activities, and the Notes will be effectively subordinated to all indebtedness and other liabilities of Subsidiaries of the Issuer</i>”. The Parent Guarantee may be released in certain circumstances. See “<i>Description of the 2018 Notes — The Parent Guarantee — Release of the Parent Guarantee</i>” and “<i>Description of the 2020 Notes — The Parent Guarantee — Release of the Parent Guarantee</i>”.</p>
Ranking of Parent Guarantee	<p>The Parent Guarantee:</p> <ul style="list-style-type: none"> • is a general obligation of the Parent Guarantor; • is effectively subordinated to secured obligations of the Parent Guarantor, to the extent of the value of the assets serving as security therefor; • is senior in right of payment to all future obligations of the Parent Guarantor expressly subordinated in right of payment to such Parent Guarantee; and • ranks at least pari passu with all other unsecured, unsubordinated Indebtedness of the Parent Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law). See “<i>Risk Factors — Risks Relating to the Notes</i>”.
Use of Proceeds	<p>We intend to use the net proceeds to (i) pay the cash portion of the consideration payable under the Concurrent USD Exchange Offer and the Concurrent RMB Exchange and Tender Offer (including without limitation, any premium, accrued interests or fractional amounts); (ii) pay any other consideration or expenses in connection with the Concurrent USD Exchange Offer and the Concurrent RMB Exchange and Tender Offer; and (iii) if there is any remainder, pay for repay existing indebtedness with near term maturities and fund the capital expenditures related to the Group’s real estate or equipment.</p>
Optional Redemption of the Notes	<p>At any time prior to the maturity date of the 2018 Notes, the Issuer may at its option redeem the 2018 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2018 Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including), the redemption date, as set forth in “<i>Description of the 2018 Notes — Optional Redemption</i>”.</p>

At any time and from time to time prior to the maturity date of the 2018 Notes, the Issuer may redeem up to 35% of the aggregate principal amount of the 2018 Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Parent Guarantor in an Equity Offering at a redemption price of 108.700% of the principal amount of the 2018 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 2018 Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

At any time prior to May 19, 2017, the Issuer may at its option redeem the 2020 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2020 Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including), the redemption date, as set forth in “*Description of the 2020 Notes — Optional Redemption*”.

At any time and from time to time on or after May 19, 2017, the Issuer may redeem the 2020 Notes, in whole or in part, at the redemption prices set forth in “*Description of the 2020 Notes — Optional Redemption*” plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to May 19, 2017, the Issuer may redeem up to 35% of the aggregate principal amount of the 2020 Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Parent Guarantor in an Equity Offering at a redemption price of 109.750% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the 2020 Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Repurchase of Notes Upon a
Change of Control

Not later than 30 days following a Change in Control, the Issuer or the Parent Guarantor 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 (including any Additional Amounts), if any, to the repurchase date. See “*Description of the 2018 Notes — Repurchase of the 2018 Notes Upon a Change of Control*” and “*Description of the 2020 Notes — Repurchase of 2020 Notes Upon a Change of Control*”.

Redemption for Taxation Reason

Subject to certain exceptions, the Issuer may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Issuer for redemption, if the Issuer or the Parent Guarantor would become obliged to pay additional amounts as a result of certain changes in specified tax laws. See “*Description of the 2018 Notes — Redemption for Taxation Reasons*” and “*Description of the 2020 Notes — Redemption for Taxation Reasons*”.

Covenants

The Notes, the indenture governing the Notes and the Parent Guarantee will limit the Issuer’s and the Parent Guarantor’s ability and the ability of their respective Restricted Subsidiaries to, among other things:

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

These covenants are subject to a number of important qualifications and exceptions described in “*Description of the 2018 Notes — Certain Covenants*” and “*Description of the 2020 Notes — Certain Covenants*”.

Unrestricted Subsidiaries

Each of (1) China Xintiandi Holding Company Limited and its subsidiaries (2) any other subsidiary of the Issuer 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 (3) any subsidiary of an Unrestricted Subsidiary. See “*Description of the 2018 Notes — Definitions — Unrestricted Subsidiaries*” and “*Description of the 2020 Notes — Definitions — Unrestricted Subsidiaries*”.

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 “ <i>Transfer Restrictions</i> ”.
Form, Denomination and Registration	Each series of the Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$150,000 of principal amount and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of a common depository for Euroclear and Clearstream.
Book-Entry Only	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see “ <i>Description of the 2018 Notes — Book-Entry; Delivery and Form</i> ” and “ <i>Description of the 2020 Notes — Book-Entry; Delivery and Form</i> ”.
Delivery of the Notes	The Issuer expects to make delivery of the Notes, against payment in same-day funds on or about May 19, 2014, which the Issuer expects will be the 13th business day following the date of this Offering Memorandum (referred to as “T+13”). You should note that initial trading of the Notes may be affected by the T+13 settlement. See “ <i>Plan of Distribution</i> ”.
Trustee	DB Trustees (Hong Kong) Limited.
Principal Paying Agent and Transfer Agent	Deutsche Bank AG, Hong Kong Branch.
Registrar	Deutsche Bank Luxembourg S.A.
Listings	Approval in-principle has been received for the listing of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$100,000 with a minimum of two board lots to be traded in a single transaction for so long as any of the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.
Governing Law	The Notes and the indenture governing the Notes will be governed by and will be construed in accordance with the laws of the State of New York.
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “ <i>Risk Factors</i> ”.

ISIN/Common Code	ISIN	Common Code
2018 Notes:	XS1058142081	105814208
2020 Notes:	XS1058142248	105814224

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary financial data as of and for each of the fiscal years ended December 31, 2011, 2012 and 2013 is derived from our audited consolidated financial statements, included elsewhere in this Offering Memorandum. Our consolidated financial statements have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants. The consolidated financial statements for the fiscal years ended December 31, 2011, 2012 and 2013 have been prepared and presented in accordance with International Financial Reporting Standards (“IFRS”). The summary financial data below should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the consolidated financial statements and the notes to those statements included elsewhere in this Offering Memorandum.

The consolidated financial statements, included elsewhere in this Offering Memorandum, incorporate the financial statements of Shui On Land and entities controlled by Shui On Land. Control is achieved where Shui On Land has the power to govern the financial and operating policy 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 profit or loss 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 in line with those used by other members of the Group. All intra-group transactions, balances, incomes and expenses are eliminated on consolidation.

SUMMARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended December 31,			
	2011	2012	2013	
	Audited	Audited	Audited	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Turnover	8,484	4,821	9,828	1,623
Cost of sales	<u>(4,783)</u>	<u>(2,761)</u>	<u>(6,673)</u>	<u>(1,102)</u>
Gross profit	3,701	2,060	3,155	521
Other income	261	282	602	99
Selling and marketing expenses	(195)	(207)	(328)	(54)
General and administrative expenses	<u>(634)</u>	<u>(738)</u>	<u>(938)</u>	<u>(155)</u>
Operating profit	3,133	1,397	2,491	411
Increase in fair value of investment properties	2,696	2,698	2,912	481
Share of results of associates	137	82	(178)	(29)
Finance costs, inclusive of exchange differences	94	(459)	(448)	(74)
Profit before taxation	6,060	3,718	4,777	789
Taxation	<u>(2,062)</u>	<u>(1,363)</u>	<u>(2,072)</u>	<u>(342)</u>
Profit for the year	<u>3,998</u>	<u>2,355</u>	<u>2,705</u>	<u>447</u>
Attributable to:				
Shareholders of the Company	3,428	2,029	2,125	351
Owners of perpetual capital securities	—	19	314	52
Other non-controlling shareholders of subsidiaries	<u>570</u>	<u>307</u>	<u>266</u>	<u>44</u>
	<u>3,998</u>	<u>2,355</u>	<u>2,705</u>	<u>447</u>
OTHER FINANCIAL DATA				
EBITDA ¹	3,187	1,476	2,278	376
EBITDA margin ²	38%	31%	23%	23%
Dividends				
- Interim dividend	107	122	140	23
- Final dividend	473	223	253	42

Notes:

(1) EBITDA for any period consists of profit for the period less interest income, increase in fair value of investment properties, plus finance costs (inclusive of exchange differences), taxation, depreciation and release of prepaid lease

payments. EBITDA is not a standard measure under IFRS. 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. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Interest expense excludes amounts capitalized. See "Description of the 2018 Notes — Definitions" and "Description of the 2020 Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the indentures governing the 2018 Notes and the 2020 Notes which is different from the EBITDA described above.

- (2) EBITDA margin is calculated by dividing EBITDA by the amount of turnover for the relevant year.

The following table reconciles our profit for the relevant year under IFRS to our EBITDA for the same year.

	Year ended December 31,			
	2011	2012	2013	
	Audited	Audited	Audited	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Profit for the year	3,998	2,355	2,705	447
Interest income	(152)	(181)	(229)	(38)
Finance costs, inclusive of exchange differences . . .	(94)	459	448	74
Taxation.	2,062	1,363	2,072	342
Depreciation and release of prepaid lease payments .	69	178	194	32
Increase in fair value of investment properties.	<u>(2,696)</u>	<u>(2,698)</u>	<u>(2,912)</u>	<u>(481)</u>
EBITDA¹	<u><u>3,187</u></u>	<u><u>1,476</u></u>	<u><u>2,278</u></u>	<u><u>376</u></u>

Note:

- (1) See note (1) above.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,			
	2011	2012	2013	
	Audited	Audited	Audited	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Non-current assets				
Investment properties	36,395	46,624	50,273	8,305
Property, plant and equipment	1,079	3,782	3,577	591
Prepaid lease payments	500	671	586	97
Interests in associates	1,057	1,264	1,086	179
Interests in joint ventures	—	—	25	4
Loans to associates	1,366	1,659	1,654	273
Accounts receivable	86	102	171	28
Loan to a joint venture	—	—	675	112
Pledged bank deposits	1,143	1,720	2,747	454
Deferred tax assets	154	93	100	16
	41,780	55,915	60,894	10,059
Current assets				
Properties under development for sale	17,247	20,150	22,711	3,752
Properties held for sale	987	3,274	1,536	254
Accounts receivable, deposits and prepayments	2,503	2,606	5,066	837
Loans receivable	152	—	—	—
Amounts due from associates	446	484	564	93
Amounts due from related companies	212	210	347	57
Amounts due from non-controlling shareholders of subsidiaries	50	65	51	9
Pledged bank deposits	1,369	443	824	136
Restricted bank deposits	335	183	1,231	203
Bank balances and cash	3,523	6,287	5,378	888
	26,824	33,702	37,708	6,229
Current liabilities				
Accounts payable, deposits received and accrued charges	5,068	7,903	11,046	1,825
Amounts due to related companies	368	782	411	68
Amounts due to associates	5	11	—	—
Amounts due to non-controlling shareholders of subsidiaries	404	530	634	105
Tax liabilities	1,855	908	823	136
Bank and other borrowings — due within one year	8,774	5,103	6,315	1,043
Convertible bonds	—	2,346	—	—
Notes	—	2,980	—	—
	16,474	20,563	19,229	3,177
Net current assets	10,350	13,139	18,479	3,052
Total assets less current liabilities	52,130	69,054	79,373	13,111

	As of December 31,			
	2011	2012	2013	
	Audited	Audited	Audited	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Capital and reserves				
Share capital	102	114	145	24
Reserves	<u>27,843</u>	<u>31,367</u>	<u>36,010</u>	<u>5,949</u>
Equity attributable to shareholders of the Company .	27,945	31,481	36,155	5,973
Perpetual capital securities	—	3,093	3,094	511
Other non-controlling shareholders of subsidiaries .	<u>1,526</u>	<u>2,694</u>	<u>2,925</u>	<u>483</u>
Total equity	<u>29,471</u>	<u>37,268</u>	<u>42,174</u>	<u>6,967</u>
Non-current liabilities				
Bank and other borrowings — due after one year . .	7,969	13,700	18,051	2,982
Convertible bonds	2,225	—	395	65
Notes	6,520	10,539	10,330	1,706
Derivative financial instruments designated as hedging instruments	150	23	105	17
Loans from non-controlling shareholders of subsidiaries	2,078	2,484	2,605	430
Deferred tax liabilities	3,710	5,028	5,662	935
Defined benefit liabilities	<u>7</u>	<u>12</u>	<u>51</u>	<u>9</u>
	<u>22,659</u>	<u>31,786</u>	<u>37,199</u>	<u>6,144</u>
Total equity and non-current liabilities	<u>52,130</u>	<u>69,054</u>	<u>79,373</u>	<u>13,111</u>

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31,			
	2011	2012	2013	
	Audited	Audited	Audited	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Operating activities				
Profit before taxation	6,060	3,718	4,777	789
Adjustments for:				
Depreciation of property, plant and equipment . . .	67	176	192	32
Release of prepaid lease payments	2	2	2	—
Net foreign exchange (gain) loss	(125)	(11)	22	4
Share of results of associates	(137)	(82)	178	29
Loss on disposal of property, plant and equipment	—	1	—	—
Gain on disposal of investment properties	(17)	—	(51)	(8)
Finance costs, inclusive of exchange differences . .	(94)	459	448	74
Interest income	(152)	(181)	(229)	(38)
Increase in fair value of investment properties . .	(2,696)	(2,698)	(2,912)	(481)
Increase in defined benefit liabilities	2	5	—	—
Equity-settled share-based payment expenses . . .	15	18	11	2
Gain on acquisition of subsidiaries	—	(50)	—	—
Gain on disposal of subsidiaries	—	—	(159)	(26)
Release of special reserve	40	—	—	—
Operating cash flows before movements in working capital	2,965	1,357	2,279	377
Decrease (increase) in accounts receivable, deposits and prepayments	1,079	(87)	(2,529)	(418)
Increase in properties under development for sale .	(7,010)	(6,712)	(5,043)	(833)
Decrease in properties held for sale	4,485	2,178	6,049	999
(Increase) decrease in restricted bank deposits . .	(92)	152	(1,048)	(173)
(Increase) decrease in amounts due from related companies	(163)	79	(137)	(23)
Increase (decrease) in amounts due to related companies	273	(41)	(213)	(35)
(Decrease) increase in amounts due to associates .	(24)	6	(11)	(2)
(Decrease) increase in accounts payable, deposits received and accrued charges	(265)	2,587	3,663	605
Cash generated from (used in) operations	1,248	(481)	3,010	497
Tax paid	(720)	(1,704)	(1,184)	(195)
Net cash from (used in) operating activities	528	(2,185)	1,826	302
Investing activities				
Interest received	119	137	178	30
Purchase of property, plant and equipment	(237)	(464)	(186)	(31)

	Year ended December 31,			
	2011	2012	2013	
	Audited	Audited	Audited	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Proceeds from disposal of property, plant and equipment	—	—	2	—
Additions to investment properties	(7,280)	(3,617)	(4,450)	(735)
Proceeds from disposal of investment properties . . .	613	24	444	73
Additions to prepaid lease payments	(434)	—	—	—
Advances to associates	(120)	(412)	(80)	(13)
Cash inflow from acquisition of subsidiaries	—	111	—	—
Net cash inflow on disposal of subsidiaries	342	—	3,178	525
Withdrawal of pledged bank deposits	645	1,895	1,005	166
Placement of pledged bank deposits	(1,272)	(1,546)	(2,413)	(399)
Repayment of loans receivable	445	152	—	—
Investment in a joint venture	—	—	(25)	(4)
Advances of loans to a joint venture	—	—	(675)	(111)
Repayment from non-controlling shareholders of subsidiaries	—	—	14	2
Net cash used in investing activities	(7,179)	(3,720)	(3,008)	(497)
Financing activities				
Advance from non-controlling shareholders of subsidiaries	410	193	104	17
Repayment of loans advanced by non-controlling shareholders of subsidiaries	(733)	(15)	(102)	(17)
Capital injected by non-controlling shareholders of subsidiaries	26	32	25	4
Cash outflow from acquisition of additional interests in subsidiaries	—	—	(177)	(29)
Deposit received in respect of partial disposal of equity interests in subsidiaries	352	—	—	—
Proceeds received in respect of partial disposal of equity interests in subsidiaries	—	138	39	7
New bank and other borrowings raised	6,106	10,001	12,230	2,020
Repayment of bank and other borrowings	(2,082)	(9,066)	(5,776)	(954)
Issue of notes	3,500	6,952	—	—
Expenses on issue of notes	(70)	(137)	—	—
Issue of perpetual capital securities	—	3,137	—	—
Expenses on issue of perpetual capital securities . . .	—	(63)	—	—
Issue of new shares under rights issue	—	—	2,937	485
Share issue expenses	—	—	(38)	(6)
Repayment of notes	—	—	(3,000)	(495)
Repurchase and redemption of convertible bonds . .	—	—	(2,287)	(378)
Settlement of interest rate swaps designated as cash flow hedges	—	(73)	—	—

	Year ended December 31,			
	2011	2012	2013	
	Audited	Audited	Audited	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Interest paid	(1,547)	(2,220)	(2,838)	(469)
Payment of dividends	(327)	(182)	(363)	(60)
Distribution to owners of perpetual capital securities	—	—	(313)	(52)
Dividend payment to a non-controlling shareholder of a subsidiary	(4)	(20)	(18)	(3)
Net cash from financing activities	<u>5,631</u>	<u>8,677</u>	<u>423</u>	<u>70</u>
Net (decrease) increase in cash and cash equivalents	(1,020)	2,772	(759)	(125)
Cash and cash equivalents at the beginning of the year	4,662	3,523	6,287	1,038
Effect of foreign exchange rate changes	(119)	(8)	(150)	(25)
Cash and cash equivalents at the end of the year .	3,523	6,287	5,378	888
Analysis of the balances of cash and cash equivalents				
Bank balances and cash	<u>3,523</u>	<u>6,287</u>	<u>5,378</u>	<u>888</u>

RISK FACTORS

Any investment in the Notes involves a high degree of risk. You should consider carefully the following information about the risks described below, together with the other information contained in this Offering Memorandum before making an investment decision. If any of the following risks actually occurs, our business, financial condition, operating results or cash flow could be materially and adversely affected. Additional risks or uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. There can be no assurance that any of the events discussed in the risk factors below will not occur and if such events do occur, you may lose all or part of your original investment in the Notes.

RISKS RELATING TO OUR BUSINESS

We are heavily dependent on the performance of the PRC property sector, particularly in Shanghai, Chongqing, Wuhan and Foshan.

We are subject to the conditions of the real estate market in the PRC generally and Shanghai, Chongqing, Wuhan and Foshan in particular. As of December 31, 2013, substantially all of our projects (excluding our project in Dalian city, in which we have a non-controlling interest) were located in Shanghai, Chongqing, Wuhan and Foshan. Although we are pursuing, and will continue to pursue, opportunities in other cities in the PRC, our projects in such other cities are comparatively in earlier stages of development than our projects in Shanghai, Chongqing, Wuhan and Foshan. We expect that in the short-to-medium term, our business will continue to be significantly affected by the state of the property market in the PRC, particularly in Shanghai, Chongqing, Wuhan and Foshan. Any adverse developments in the supply and demand or in property prices in the PRC, particularly in Shanghai, Chongqing, Wuhan and Foshan, would have a material adverse effect on our financial condition and results of operations. In addition, the future demand for different types of properties is uncertain. If we do not respond to changes in market conditions or customer preferences in a timely manner, our results of operations may be adversely affected. There can be no assurance that our property development and investment activities will continue at past levels or that we will be able to benefit from the future growth, if any, of the property markets in Shanghai, Chongqing, Wuhan, Foshan or other parts of the PRC.

The completion of the Proposed China Xintiandi Spin-off or the Brookfield Investment cannot be guaranteed or if the completion of the Proposed China Xintiandi Spin-off or the Brookfield Investment has unexpected consequences, our business, results of operations and reputation may be materially and adversely affected.

On May 28, 2012, Shui On Land announced that it had submitted a proposal to the Hong Kong Stock Exchange to dispose of part of Shui On Land's interest in China Xintiandi, a wholly owned subsidiary of Shui On Land, by way of the Proposed China Xintiandi Spin-off, and submitted a listing application to the Hong Kong Stock Exchange for the shares of China Xintiandi in connection with the Proposed China Xintiandi Spin-off. On October 31, 2013, Shui On Land announced that Shui On Land and CXTD Holding entered into the Brookfield Investment Agreement with, amongst others, Brookfield. On February 17, 2014, Shui On Land announced that the Initial Brookfield Investment had been completed. See "Summary — Proposed Spin-off of China Xintiandi and Brookfield Investment".

The Proposed China Xintiandi Spin-off is subject to, among other things, the approval by the Listing Committee of the Hong Kong Stock Exchange, the final decisions of the board of directors of Shui On Land and of the board of directors of China Xintiandi, the approval of the shareholders of Shui On Land and consents from certain of our lenders and joint venture partners. We may also consider equity or debt investments from third parties in China Xintiandi and/or in any of its subsidiaries (including the Brookfield Investment), which may subject China Xintiandi's business, assets and liabilities and its subsidiaries to certain restrictions. We may also consider making strategic disposals of certain assets to third parties.

RISK FACTORS

We cannot assure you that we will be able to effectively manage the spin-off process related to the Proposed China Xintiandi Spin-off, manage the separate businesses, achieve the expected levels of revenue and cost reductions and benefits from increased specialization. The managerial, personnel, financial and other resources that have been devoted to this transaction may not be justified and the potential negative media coverage on the possible failure of this transaction may adversely affect our reputation. Further, our estimates with respect to these expected benefits and costs may be inaccurate due to errors or changes in our underlying assumptions, including our expectations about the future business environment and real estate industry in China.

Should the Proposed China Xintiandi Spin-off not occur, be significantly delayed or not meet the strategic objectives of our management, or if the completion of the Brookfield Investment or Proposed China Xintiandi Spin-off has unexpected consequences, our business, results of operations and cash flows may be materially and adversely affected.

Increasing competition in the PRC property market may adversely affect our business and financial condition.

In recent years, a large number of property developers have undertaken property development and investment projects in the PRC, especially in major cities where our projects are located (such as Shanghai). Increasing competition among property developers in the PRC may increase the costs for land, construction, financing, raw materials, skilled management and labor resources. Although we aim to differentiate ourselves and our products from our competitors through various strategic initiatives, increasing competition could result in increased costs, reduced market share and falling property prices, any of which may adversely affect our business, financial condition and results of operations.

We may not be able to achieve the goals as stated in our Second Three-Year Plan.

In mid-2009, we launched our First Three-Year Plan, which was aimed at providing accelerated but sustainable growth and maintaining balance between value creation for the long term and cash generation in the short-to-medium term. The main objective of the First Three-Year Plan was to expedite project development and increase project completion rate consistently and continuously. However, we did not achieve our goal of delivering one million square meters of properties in 2012 due to changes in market conditions. Various phases of developments in different projects have been deferred to optimize our inventory level and capital expenditure. For our Second Three-Year Plan, which will progressively unfold from 2013 to 2015, our overarching goals are the acceleration of the development of the cleared sites in Shanghai and other cities, the realization of value of our investment property portfolio for sustainable earnings growth and the deleveraging of our balance sheet. However, factors that are beyond our control, such as economic slowdown, change in government policy or change in market dynamics in the PRC property market, may affect the implementation of our Second Three-Year Plan or any subsequent new plan that may be adopted and may materially and adversely affect our business, financial condition and results of operations. There can be no assurance that we will be able to achieve the objectives as planned or at all.

We may not be able to acquire suitable sites at reasonable prices for our future development projects.

Our core strategy is to develop city-core and integrated residential development projects. The success of our strategy and future growth depends upon, among other things, our ability to expand our land portfolio and to identify and acquire land plots in suitable locations at affordable prices. We may incur significant costs in identifying and evaluating suitable sites for development. Major Chinese cities

such as Shanghai have experienced rapid land price increases in recent years and there is a limited supply of suitable plots available for development in such cities. As a result, we may not be able to acquire large plots of land in urban locations suitable for our development at affordable prices, or at all, in the future. We also face strong competition from other property developers for these sites.

Our ability to acquire sites depends upon PRC laws and regulations. In the PRC, the relevant authorities control the supply of substantially all land, and both our ability to acquire land use rights for future development projects and the acquisition costs of these land use rights will be affected by PRC government policies toward land supply. Our ability to acquire sites will depend on the receipt of required approvals from relevant authorities in the PRC. In addition, various local governments (including those in Shanghai, Chongqing, Wuhan and Foshan) and the central government has introduced regulations requiring that land use rights for commercial, cultural, entertainment, residential and office property developments be sold by public tender or auction. This requirement may increase our costs of acquiring sites. The PRC central and local governments may also regulate the type of development projects that property developers, including us, may pursue. In recent years, the PRC government has promulgated policies that restrict banks from granting loans to finance the construction of luxury residential properties and limit or prohibit the supply of land available for projects such as villa-style developments, low-density housing developments and golf courses. For example, on September 21, 2010, the Ministry of Land and Resources (“MLR”) and the Ministry of Housing and Urban-Rural Development (“MOHURD”), formerly the Ministry of Construction, issued a notice that requires more than 70% of land used for construction of urban housing to be designated for low-income housing, housing for resettlement of shanty towns and small-to-medium-sized ordinary commercial housing, and the plot ratio of the planned GFA to the total site area of residential projects must be more than 1 to 1. On January 26, 2011, the PRC State Council issued the Circular of the General Office of the State Council on Issues concerning Further Works of Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作的有關問題的通知) (the “**January 26, 2011 Circular**”), restating the 70% policy of the designation of land. On July 19, 2012, the MLR and the MOHURD issued the Urgent Notice on Further Restricting Land Use and Consolidating Accomplishment of Control over the Real Estate Market (國土資源部、住房城鄉建設部關於進一步嚴格房地產用地管理鞏固房地產市場調控成果的緊急通知) (the “**July 19, 2012 Circular**”), restating the plot ratio to be no less than 1 to 1. If we are not able to acquire suitable sites at affordable prices, or at all, or if we are restricted in the types of projects we may pursue at specific sites, our business and growth prospects may be materially and adversely affected.

We require substantial capital resources to develop our existing and future projects, and we may not be able to obtain such resources.

We require substantial capital resources to acquire land and develop our existing and future projects. To date, we have relied on internally-generated funds, bank and other borrowings and the issuance of debt and equity securities. We expect that we will continue to rely on these sources of funds to finance our future projects. There can be no assurance that we will have sufficient cash flow (including through pre-sales and sales of our properties and gains on disposal of equity interest in subsidiaries) or other resources to fund land acquisitions and property developments, among other things because our cash flow may vary significantly from period to period. Furthermore, there can be no assurance that we will be able to obtain additional third-party financing on satisfactory terms or at all. As of December 31, 2013, our outstanding bank and other borrowings were RMB24,366 million (US\$4,025 million). If we are unable to obtain additional third-party financing, we may not be able to undertake our future development projects or develop additional projects and our business development, if any, will be curtailed until such time when we are able to obtain additional capital resources.

Our ability to arrange adequate financing for land acquisitions or property developments on terms that will allow us to earn reasonable returns depends on a number of factors, many of which are outside of our control, including general economic conditions, credit available from financial institutions and

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monetary policy in the PRC. For example, since 2008, the People's Bank of China (“PBOC”), in response to changing economic conditions, has increased or decreased its reserve requirement ratio for commercial banks several times, with such ratio being at 20% effective from May 18, 2012. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Increases of the bank reserve requirement ratio may negatively impact the amount of funds available to lend to businesses, including ours, by commercial banks in China. On September 29, 2010, the PBOC and The China Banking Regulatory Commission (“CBRC”) promulgated the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (關於完善差別化住房信貸政策有關問題的通知), which provides that all property companies with records of having idle land, changing the land use purpose and nature, delaying the project commencement or completion time and hoarding properties or other acts of non-compliance with applicable laws or regulations shall be restricted from obtaining bank loans or credit facilities for new projects.

In addition, land use policies and procedures adopted by the PRC government occasionally may limit our ability to use bank loans and other forms of debt financing to finance our property developments, which may require us to maintain a relatively high level of internally-sourced cash to meet project financing needs. In November 2009, the PRC government raised the minimum down payment of land premium to 50%. In March 2010, the PRC government further tightened this requirement by setting the minimum land premium at no less than 70% of the benchmark price of the locality where the parcel of land is granted and the bidding deposit at not less than 20% of the minimum land premium. Additionally, a land grant contract is required to be entered into within ten working days after the land grant deal is closed, and the 50% minimum down payment of land premium is required to be paid within one month of signing the land grant contract, with the remaining amount to be paid in full within one year of the date of the land grant contract in accordance with provisions of such land grant contract, subject to limited exceptions. These tight timing requirements limit our ability to use bank loans and other debt financings, which typically require substantial lead-time before funds are obtained, to finance such land premium payment requirements. This restraint on financing, in turn, constrains the number of land acquisition and construction opportunities we may pursue with cash on hand.

There can be no assurance that we will have adequate resources to fund land acquisitions (including any unpaid land premiums for past acquisitions) or property developments, or that the PRC government will not introduce other initiatives which may limit our access to capital resources. If we do not have adequate resources to fund our land acquisitions or property developments, or if our access to capital resources are further limited, our business and financial condition may be materially and adversely affected.

We may not be able to obtain land use rights certificates for certain parcels of land in which we currently have various interests.

We are generally allowed to commence our development of a project once we have entered into a land grant contract, or registered a land use transfer agreement, as the case may be, with the relevant authorities and the land has been delivered to us. However, the land use rights with respect to a property will not be vested in us until we have paid the land grant premium, completed the process of relocating local residents from the site area, and received the corresponding land use rights certificate. As only a portion of the lots in our projects are currently under construction and as a result of our strategic decision on the appropriate timing in obtaining land use rights certificates, we do not currently possess land use rights certificates with respect to the substantial majority of the lots on our projects for which we have signed land contracts or transfer documents or hold other forms of interest, including the majority of the lots for the Shanghai Taipingqiao project, the Chongqing Tiandi project and Dalian Tiandi project, Site B of the Wuhan Tiandi project and the Foshan Lingnan Tiandi project. See “*Business — Our Property Projects*”. There can be no assurance that the land authorities will grant

us the appropriate land use rights in a timely manner, or at all. If we cannot obtain land use rights certificates for our development projects, we may not be able to lease or sell the portions of the project where we do not have land use rights certificates, which could have a material adverse effect on our business, financial condition and results of operations.

We are party to various long-term agreements with regional and local PRC government entities which may not be implemented as planned.

We frequently develop properties in cooperation with regional and local PRC governments or their related entities, including pursuant to master agreements, joint venture agreements, land grant contracts and other agreements. Those agreements pose enforcement and other risks, particularly in light of the relatively long execution periods in some cases and potential changes in PRC government policies and priorities. We cannot guarantee that related regional and local PRC government policies will not be changed in the future, which in turn may result in changes to the manner of implementation of or modifications to such agreements on terms that are not favorable to us, including changes to the price for the land use rights to the land parcel concerned. In addition, there is limited precedent for the enforcement of contracts of this type against regional and local PRC government entities, and there can be no assurance that such agreements can be enforced as contemplated or at all, or that title to the land parcel subject to these master agreements, joint venture agreements, land grant contracts and other agreements can be obtained. If any of these land grant contracts, land supply contracts or master agreements are not implemented as agreed, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We may not receive full compensation for assistance we provide to local governments to clear land for government land sales.

In certain cases where we are interested in acquiring land, we may assist local governments in clearing the land and relocating the original residents so that the land is ready for tender, auction and listing-for-sale. In such cases, we enter into land clearance agreements with the relevant land authorities, under which we are reimbursed for expenses we incur for land clearance and relocation and we are entitled to a portion of the profit realized by the local government on the land sale. However, such land clearance arrangements do not give us exclusive rights to acquire the land use rights for the relevant land, and we do not control the timing of the sale of the land use rights in the land that we have cleared nor do we have any influence on the price for which such land use rights are sold. Sales of the land use rights are conducted by the relevant local government land authorities, through a bidding, auction or listing-for-sale process. There can be no assurance that we will win any such bid on land that we have cleared under the land clearance agreements in a timely manner or at all nor can there be any assurance that the relevant land authority will achieve an optimal price for the sale of such land use rights. There can be no assurance that we will be reimbursed for the expenses that we incur in connection with such land clearance, or that we will receive any profit from such land use right sales. Further, the PRC State Council on January 3, 2008 issued the Notice to Enhance the Economical and Intensive Use of Land (關於促進節約集約用地的通知), which requires the use of a public bidding process in selecting companies to assist the local governments with land clearance work. The PRC State Council promulgated the Regulation on the Expropriation of Buildings on State-owned Land and Compensation (國有土地上房屋徵收與補償條例) on January 21, 2011. On November 5, 2012, the MLR, the Ministry of Finance, the PBOC, and the CBRC issued the Notice on Strengthening Land Reserve and Financing Management (國土資源部、財政部、中國人民銀行、中國銀行業監督管理委員會關於加強土地儲備與融資管理的通知). According to these regulations, construction units shall not participate in the relocation work in connection with land clearance. The units responsible for the execution of expropriation and compensation shall not benefit from the execution work, and the value of the buildings should be based on a valuation report issued by a

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certified valuation institution. Therefore, with the implementation of this new policy, we may not participate in such land clearance work anymore. The MOHURD promulgated Valuation Rules on Expropriation of Buildings on State-owned Land (國有土地上房屋徵收評估辦法) on June 3, 2011, which sets forth rules for choosing a valuation institution and determining a valuation.

For some of our development projects, we are required to relocate existing residents and pay relocation costs, and the relocation process may not be completed as planned.

Subject to the agreement in our land grant contracts, we or the relevant land authorities are responsible for relocating existing residents and demolishing existing structures on the project sites. In cases where we are responsible for relocation, we are required to compensate the owners or residents of existing buildings on land to be developed for relocation in accordance with applicable law. Regardless of whether we or the relevant land authorities are responsible for relocating existing residents, if any resident is dissatisfied with the relocation compensation and refuses to move, we or the land authorities may seek to resolve the dispute by negotiating with the relevant resident to reach a mutually acceptable relocation compensation arrangement, or applying to the relevant land authority (where the existing buildings are located) for its determination of whether the relocation compensation and relocation timetable comply with PRC law. The relevant land authority will then make a decision as to the proper costs and timetable arrangements. Such disputes may substantially increase the relocation costs paid by us and delay the proposed construction process. We have experienced delays beyond our originally anticipated timeframes in the relocation process for, and consequently the construction of, some of our projects in Shanghai, which resulted in an increase in our development costs. If a large number of residents refuse to accept the relocation arrangements for any of our existing or future projects, or if there is similar delay beyond our expected timeframe in the relocation process of any of our existing or future projects, we may not be able or willing to proceed with the proposed development and our returns and results of operations may be adversely affected. In addition, there can be no assurance that the relevant land authorities will not further change their policies on relocation, the relocation compensation formulae or their rules and requirements on other related matters. If they do so, our construction costs could substantially increase and our relocation timetable could be further delayed, which would adversely affect our business, financial condition and results of operations.

Our financing costs are affected by changes in interest rates.

Our financing costs and our results of operations are affected by changes in interest rates. A substantial portion of our borrowings are linked to benchmark lending rates such as those published by the PBOC or the Hong Kong Interbank Offer Rate (“HIBOR”). The PBOC benchmark lending rates and HIBOR are subject to market movement. The PBOC raised the benchmark one-year lending rate several times from 5.58% in October 2004 to 7.47% in December 2007 and has subsequently lowered such rate several times from 2008 to 2012 in view of the global economic downturn and risk of a downward economic trend in the PRC. There can be no assurance that the lending rates published by PBOC or the HIBOR rate will not be increased in the future or that our business, financial condition and results of operations will not be adversely affected as a result of these increases. As of December 31, 2013, the effective interest rate on our aggregate bank and other borrowings was 6.0% and we had consolidated bank and other borrowings of RMB24,366 million (US\$4,025 million) with maturities ranging from one to twelve years. Our interest expense on bank loans for 2011, 2012 and 2013 was RMB790 million, RMB1,063 million and RMB1,426 million (US\$236 million) respectively.

We depend on key management personnel.

Our success and growth depends on our ability to identify, hire, train and retain suitably skilled and qualified employees, including key management personnel with the requisite industry expertise. In particular, we depend on the efforts of Mr. Lo, our chairman. Mr. Lo is our founder and started the Shui On Group in 1971. With over 40 years' experience in the industry, Mr. Lo has developed many relationships that are crucial to our business. If we were to lose his services, our operations could be adversely affected. Mr. Lo is also the chairman of the Shui On Group and the chairman of SOCAM. These outside business interests may restrict his ability to devote his time to our business and affairs as much as we may need.

Our other members of senior management and key employees are also important to our success. The loss of any of our senior management or key employees could have a material adverse effect on our business if we are unable to find suitable replacements in a timely manner. Competition for such personnel is intense, the pool of qualified candidates is very limited, and we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may lose customers and key professionals or staff members and our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our major shareholders are able to exercise substantial influence over our corporate policies and direct the outcome of corporate actions.

As of March 31, 2014, Shui On Properties Limited (being a wholly owned subsidiary of SOCL), Shui On Investment Company Limited ("SOI") (being a wholly owned subsidiary of SOCL) and its direct wholly owned subsidiaries, and New Rainbow Investments Limited (being a wholly owned subsidiary of SOCAM), collectively referred to as the "**Principal Shareholders**", together own approximately 57.20% of the issued share capital of Shui On Land Limited. Subject to compliance with applicable laws, by maintaining such ownership, the Principal Shareholders are able to exercise substantial influence over our corporate policies, appoint our directors and officers and vote on corporate actions requiring shareholders' approval. In addition, our chairman, Mr. Lo, is a controlling owner of the Principal Shareholders and is able to exercise substantial control over our business. The strategic goals and interests of the Principal Shareholders may not be aligned with our strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. In circumstances involving a conflict of interests between the Principal Shareholders, and the holders of the Notes, there can be no assurance that the Principal Shareholders would not exercise their power to control us in a manner that would benefit them to the detriment of the holders of the Notes, despite the fact that any connected transactions between and among the Principal Shareholders and us are subject to the rules and regulations of the Hong Kong Stock Exchange.

Our turnover, cash-flow and results of operations may vary significantly from period to period.

Our turnover, cash-flow and results of operations for each period depend primarily on the number of properties that become available for sale or pre-sale in such period. Turnover from sales of completed properties is recognized when the legally binding sales contracts are signed and exchanged and the condition precedents contained in such contracts are satisfied, while turnover from pre-sales of properties under development is recognized upon the delivery of properties to the purchasers pursuant to sale and purchase agreements. As a result of our turnover recognition policy, we recognize the majority of our turnover after a significant passage of time from the date of the pre-sale. In addition, while the pre-sale of our property generates positive cash flow for us in the period in which it takes place, we must place a portion of the proceeds in restricted bank accounts and may only use such

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proceeds for specified purposes until the completion of the property development. We cannot predict with certainty the time of the completion and delivery of a property, and hence the time of the turnover recognition from any pre-sale and our ability to use all the proceeds for such pre-sale, as the completion of any property development will vary according to its construction timetable and the time required to obtain the occupation permit.

Accordingly, due to the volatile nature of the turnover we generate from property development, the periods discussed in our financial statements included in this Offering Memorandum may not be comparable to each other or other future periods. In addition, our results of operations and cash flows may fluctuate significantly from period to period, and are likely to continue to do so for the foreseeable future.

Our profit margin is sensitive to fluctuations in the cost of construction materials.

Construction costs comprise one of the major components of our cost of sales. Construction costs encompass all costs for the design and construction of a project, including payments to third-party contractors, costs of construction materials, foundation and substructure, fittings, facilities for utilities and related infrastructure such as roads and pipelines.

Construction costs may fluctuate as a result of the volatile price movement of construction materials such as steel and cement, which are difficult to estimate or predict. We seek to reduce our exposure to short-term price fluctuations of construction materials and limit project cost overruns by outsourcing construction work, including procurement of supplies of principal construction materials such as steel and cement of our property development projects at fixed prices. We often include construction material costs in the total construction costs paid to our contractors as part of the construction contracts with such contractors. However, in line with industry practice, if there is a significant price fluctuation (depending on the specific terms of each contract), we will be required to re-negotiate, top up or refund, depending on the price movement, existing construction contracts. Additionally, should our existing contractors fail to perform under their contracts, we might have to pay more to other contractors under replacement contracts. Our profit margin is sensitive to changes in the market prices for construction materials and our project margins will be adversely affected if we are not able to pass all of the increased costs onto our customers.

Our use of joint ventures and other cooperation arrangements with third parties may limit our flexibility with respect to such investments and project developments.

We frequently develop properties in cooperation with local district governments and third parties. As of March 31, 2014, our equity interest in these joint ventures was between 49.98% and 99%. As of March 31, 2014, we owned 99% and 49.98%, respectively, of the joint venture companies that develop Casa Lakeville and Lot 116 of the Shanghai Taipingqiao project and had a 79.01% interest in our joint venture for the development of the Shanghai Rui Hong Xin Cheng project, with the exception of certain lots, in which we had a higher equity interest, and the non-retail portion of a particular lot, in which we had a 99.0% interest. As of March 31, 2014, we had a 75% interest in our joint venture for the development of the Wuhan Tiandi project and an 86.8% interest in our joint venture for the Shanghai KIC project, with the exception of a particular lot, in which we had a 99% interest. As of March 31, 2014, we had a 79.4% interest in our joint venture for the development of the Chongqing Tiandi project, with the exception of a particular lot, in which we had a lower equity interest, and had a 48% interest in our joint venture for the development of the Dalian Tiandi project, with the exception of certain lots, in which we had a lower equity interest. As of March 31, 2014, we had a 55.9% interest in our joint venture for the development of Foshan Lots 6 and 16 and had a 54.92% attributable interest in Foshan Yong Rui, our joint venture for the development of Foshan Lot 18. On September 30, 2013, the Issuer entered into the Swap Agreement with Trophy Property GP Limited, as general partner of and on behalf of Trophy Property Development L.P. (“TPD”) and TPD’s subsidiaries. Simultaneously

on September 30, 2013, the Issuer, Taipingqiao 116 and Portspin entered into the JV Agreement in relation to Portspin Limited (“**Portspin**”), pursuant to which, among other things, the Issuer would receive shares in Portspin upon completion under the Swap Agreement and the parties thereunder would manage the business of Portspin and its subsidiaries in accordance with the terms and conditions of the JV Agreement. See “*Related Party Transactions — Asset swap and joint venture agreement with TPD*” for details on arrangements with respect to these projects. On February 17, 2014, Shui On Land announced that Brookfield had invested an aggregate amount of US\$500 million into CXTD Holding and Shui On Land in return for (1) convertible perpetual securities of CXTD Holding in an aggregate principal amount of US\$500 million and (2) 415 million warrants to subscribe for ordinary shares in the capital of Shui On Land. See “*Summary — Proposed Spin-off of China Xintiandi and Brookfield Investment*”. Although we generally have control over the management of the joint ventures and project developments in which we have a majority equity interest, the adoption of certain important board decisions requires the unanimous resolution of all the directors of these companies, some of whom are appointed by the relevant joint venture partners. As a result, our participation in these business partnership arrangements is subject to the risks, amongst others, that:

- we may not be able to pass certain important board resolutions requiring unanimous consent of all the directors of our PRC subsidiaries if there is a disagreement between us and our business partner;
- a disagreement with any of our business partners in connection with the scope or performance of our respective obligations under the project or joint venture arrangement might affect our ability to develop or operate a property;
- our business partners may have different economic or business objectives;
- our business partners may be unable or unwilling to perform their obligations under the joint venture arrangements with us, including their obligation to make required capital contributions and shareholder loans, whether as a result of financial difficulties or otherwise;
- our business partners may take actions contrary to our instructions or requests or contrary to our policies or objectives; and
- our business partners may have financial difficulties.

A serious dispute with our business partners or the early termination of our joint venture or cooperation arrangements could adversely affect our business, financial condition and results of operations. Should a situation arise in which we cannot complete a project being jointly developed with our business partners, due to one of the above reasons or for any other reason, the rights and obligations of each party with respect to the uncompleted project will be determined as specified under the relevant joint venture or cooperation agreements. To the extent that such agreements are silent or inconclusive with regard to such rights and obligations, the resolution of any dispute may require arbitration or, failing that, litigation, which could have an adverse effect on our business, results of operations and financial condition.

In the event that we encounter any of the foregoing problems with respect to our business partners, our business operations, profitability and prospects may be materially and adversely affected.

Our subsidiary companies may not be entitled to continue to receive the benefit of certain financial subsidies.

Certain of our subsidiary companies with respect to the Shanghai Rui Hong Xin Cheng, Wuhan Tiandi and Chongqing Tiandi projects have entered into arrangements with local governments pursuant to

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which the local governments have agreed to provide financial subsidies to them. The National People's Congress, the State Council and the Ministry of Finance have adopted a variety of laws and notices requiring local authorities to cease making refunds of certain local taxes. In addition, Article 84 of the Law on the Administration of Tax Collection of the PRC (as revised, with effect from May 1, 2001) provides that a taxpayer may be ordered to repay any taxes which were refunded in violation of laws and regulations. In the event these financial subsidies are considered to be tax refunds, the relevant subsidies might be exposed to challenges and may be required to be returned. There can be no assurance that the relevant tax authorities in the PRC will not deem the financial subsidies to be tax refunds and require that these subsidies be returned to the government.

Our results of operations for each of the years ended December 31, 2011, 2012 and 2013 included increases in fair value of our investment properties, which were unrealized.

For the years ended December 31, 2011, 2012 and 2013, the increase in fair value of our investment properties represented 44.5%, 72.6% and 61.0% of our profit before tax, respectively. Upward revaluation adjustments reflect unrealized capital gains on our investment properties at the relevant balance sheet dates and are not profit generated from sales or rentals of our investment properties, and do not generate any actual cash inflow to us for potential dividend distribution to our shareholders until such investment properties are disposed of at similarly revalued amounts. The amount of revaluation adjustments have been, and may continue to be significantly affected by, the prevailing property markets and also may be subject to market fluctuations. There can be no assurance that we will continue to record similar levels of increase in the fair value of our investment properties in the future. Moreover, the fair value of our investment properties could decrease in the event that the market for comparable properties in the PRC experiences a downturn as a result of PRC government policies aimed at "cooling-off" the PRC property market, or otherwise. Any such decrease in the fair value of our investment properties may materially and adversely affect our profitability.

The valuations of our property interests are based on assumptions that may not materialize.

As permitted by IFRS, we value our commercial properties annually at their open market value on the basis of professional valuations. The valuations are based on certain assumptions, which, by their nature, are subjective and uncertain and may differ materially from actual results. For example, with respect to commercial properties under development and planned for future development, the valuations are based on assumptions that (a) the properties will be developed and completed in accordance with the development proposals; and (b) regulatory and governmental approvals for the proposals have been obtained. The valuations are also based on the assumptions that the site and gross floor areas of the commercial properties are correct and that the commercial properties are free from encumbrances and other restrictions that could affect their values. Accordingly, the valuations are not a prediction of the actual value we expect to achieve from these commercial properties. Unanticipated results or changes in particular property developments, or changes in general or local economic conditions or other relevant factors, including changes in government regulations, could affect such values. In addition, valuation differences are recognized in our income statement. Accordingly, a decrease in the value of our commercial properties would reduce the amount of our net income and could result in a net loss during a particular period.

We may suffer losses that are not covered by insurance.

We may not have maintained sufficient insurance coverage against potential losses or damages with respect to our properties. Our business may be adversely affected due to the occurrence of typhoons, severe storms, earthquakes, floods, fires or other natural disasters or similar events in the areas of our property developments. Although we carry insurance on our properties with respect to specified catastrophic events, of types and in amounts and with deductibles and limitations that we believe are in line with coverage customarily obtained by owners of similar properties, there are other types of

losses, such as from war and acts of terrorism, for which we cannot obtain insurance at a reasonable cost, or at all. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital invested in a property, as well as the anticipated future turnover from the property. Nevertheless, we might remain liable for any project construction loans, mortgage loans or other financial obligations related to the property. It is also possible that third-party insurance carriers will not be able to maintain reinsurance sufficient to cover any losses that may be incurred. Any material uninsured loss could materially and adversely affect our business, financial condition and results of operations.

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

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 presold property development on time as set forth in the relevant sale and purchase agreements, in which case we would find ourselves liable to purchasers of presold units for losses suffered by them. There can be no assurance that these losses would not exceed any deposits that may have been made with respect to the presold units. If a presold property development is not completed on time, the purchaser may be entitled to compensation for late delivery. If the delay extends beyond the contractually specified period, or if the actual GFA of a completed property delivered to a purchaser deviated by more than three percent from the GFA originally indicated in the purchase contract, the purchaser would be entitled to terminate the purchase contract and claim damages.

On August 5, 2005, the PBOC issued a report entitled “2004 Real Estate Financing Report” in which it recommended that the practice of pre-selling uncompleted properties be discontinued, on the grounds that it creates significant market risks and generates transactional irregularities. At the plenary session of the National People’s Congress and that of the Chinese People’s Political Consultative Conference held in March 2006, a total of 33 delegates to the National People Congress put forward a motion to abolish the system for sale of forward delivery housing. In May 2006, Cheng Jiansheng, head of the Real Estate Finance Division of the Financial Market Department of PBOC, published an article pointing out that the way to improve the system for commodity housing pre-sale in China is to abolish the financing function of pre-sale. On April 26, 2007, an economy research group under the National Development and Reform Commission (“NDRC”) proposed to change the existing system for sale of forward delivery housing into one for sale of completed housing. These recommendations have not been adopted by any PRC governmental authority and have no mandatory effect. On March 5, 2010, a government work report delivered by Chinese Premier Wen Jiabao at the Third Session of the 11th National People’s Congress pointed out that the PRC government will improve the pre-sale system of commodity housing. For example, the Shanghai local government has adjusted the completion progress level for pre-sale of commodity residential housing projects that obtained the “Permit for Construction Work” after July 1, 2010. Those residential housing projects must have completed the main structural works and passed examination before they can be available for pre-sale, and thus raising the standard for pre-sale. There can be no assurance that the PRC governmental authority will not ban the practice of pre-selling uncompleted properties or implement further restrictions on the pre-sale of properties, such as imposing additional conditions for a pre-sale permit or further restrictions on the use of pre-sale proceeds. 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

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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 needing to seek alternative means to finance the various stages of our property developments. This, in turn, could have an adverse effect on our business, cash flow, results of operations and financial condition.

We face various uncertainties in the process of property development before we realize any benefits from a development.

Property development typically requires substantial capital outlay during the construction period and may take months or years before positive cash flows can be generated by pre-sales or sales of completed property developments, or at all. The time and costs required in completing a property development may be subject to substantial increases due to many factors, including shortages of materials, equipment, technical skills and labor, adverse weather conditions, natural disasters, labor disputes, disputes with contractors, accidents, changes in government priorities and policies, changes in market conditions, delays in obtaining the requisite licenses, permits and approvals from the relevant authorities and other unforeseeable problems and circumstances. Any of these factors may lead to delays in, or prevent, the completion of a property development and result in costs substantially exceeding those originally budgeted. In addition, failure to complete a property development according to its original specifications or schedule, or at all, may give rise to potential liabilities and, as a result, our returns on investments may be lower than originally expected. There can be no assurance that we will be able to complete our development projects on time or at all.

The recent global economic slowdown and continued turmoil in the global financial markets have negatively impacted, and may continue to negatively impact, our business and our ability to obtain necessary financing for our operations.

The recent global economic slowdown and continued turmoil in the global financial markets beginning in the second half of 2008 have resulted in a general credit crunch, an increased level of commercial and consumer delinquencies, lack of consumer confidence and increased market volatility. This global economic slowdown has had a negative impact on property markets and property prices in the PRC. For example:

- slow economic growth and tightened credit have resulted in lower demand for residential and commercial properties and declining property prices, which in turn have affected our turnover and profit margin;
- weak economic conditions have also affected the ability and speed of property developers in commencing new development projects or expanding existing ones; and
- the tightening of credit has negatively impacted the ability of property developers and potential property purchasers to obtain financings. The outlook for financial markets and general economy around the world remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the United States, the unemployment rate remains high and recovery in the housing market remains subdued. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow or both. In the Middle East, political unrest in various countries has resulted in economic instability and uncertainty.

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely impacted, and may continue adversely impacting, home owners and potential property purchasers, which may lead to a decline in the general demand for our products and erosion of their

selling prices. In addition, any further tightening of liquidity in the global financial markets may in the future negatively affect our liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets crisis continue, our business, financial condition and results of operations may be negatively impacted.

Our sales strategy in Shanghai and Wuhan may be affected by local regulations that require a launch of property sales with a minimum GFA of 30,000 sq.m.

According to the Notice to Further Strengthen the Supervision of Real Estate Market and Regulation of Commodity Property Pre-sale (關於進一步加強本市房地產市場監管規範商品住房預銷售行為的通知) issued by the Shanghai Municipal Housing Security and the Housing Authority on September 2, 2010 and the Interim Regulations on the Administration of the Pre-Sale of Commodity Property in Wuhan (武漢市商品房預售方案管理暫行規定) issued by the Wuhan Housing Security and Administration Bureau on June 30, 2010, real estate companies in Shanghai and Wuhan must, with respect to any project, launch a one-time pre-sale event for all the properties in such project, or if multiple launches are necessary, a portion of the properties with a GFA of no less than 30,000 sq.m. We generally pre-sell properties before they are completed and ready for delivery. See “*Business — Overview of our Principal Activities — Pre-sales, sales and marketing*”. We currently have four projects in Shanghai and one in Wuhan, and the sale of properties in Shanghai and Wuhan accounted for the majority of our turnover for the years ended December 31, 2010, 2011 and 2012. Such a local requirement restricts our ability to adopt certain sales strategies such as testing the market by launching a small portion of our properties in order to determine the price for pre-sales of the remaining properties. Moreover, such a requirement for a minimum GFA to be launched each time may create an oversupply of properties in certain areas within a certain period of time, which in turn, may result in lower-than-market price for pre-sold properties. There can be no assurance that we will be able to adopt a proper sales strategy in that situation and if we fail to do so, our business, financial condition and results of operations may be materially and adversely affected.

We are subject to legal and business risks if we fail to obtain formal qualification certificates.

Property developers in the PRC must obtain a formal qualification certificate in order to engage in property development in the PRC. According to the Provisions on Administration Qualification Certificates of Property Developers (房地產開發企業資質管理規定), newly established developers must first apply for a temporary qualification certificate valid for one year, which can be renewed for a maximum of two additional one-year periods. Entities engaged in property management or interior decoration should also obtain qualification certifications before commencing their business, according to the Measures on Administration of Qualification Certificates of Property Service Enterprises (物業服務企業資質管理辦法) and the Provisions on Administration of Qualification Certificates of Construction Enterprises (建築業企業資質管理規定).

If a newly established property developer fails to commence developing property within one year of the provisional qualification certificate becoming effective, it will not be allowed to extend its provisional qualification certificate. Experienced property developers must also apply for renewal of their qualification certificates once every two to three years in most cities, subject to an annual verification by relevant governmental authorities. It is mandatory under government regulations that developers fulfill all statutory requirements before obtaining or renewing their qualification certificates. In reviewing the renewal of a qualification certificate, the local authority takes into account the property developer’s registered capital, property development investments, history of property development, quality of property construction, expertise of the developer’s management, as well as whether the property developer has any illegal or inappropriate operations. Each of our project companies is responsible for, and monitors, the annual submission of its renewal application.

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Property developers in the PRC must also produce a valid qualification certificate when they apply for a pre-sale permit. If any one of our project companies is unable to meet the relevant requirements, and is therefore unable to obtain or renew its qualification certificate, that project company will typically be given a grace period to rectify any insufficiency or non-compliance issue, subject to a penalty of between RMB50,000 and RMB100,000. Failure to meet the requirements within the specified timeframe could result in the revocation of the qualification certificate and the business license of such project company. As of December 31, 2013, one of our project companies is in the process of applying for a pre-sales permit. As of the date of the Offering Memorandum, Shui On Development Limited is in the process of filing for an extension of its certificate for the real estate brokerage. However, there can be no assurance that the qualification certificates of any of our project companies will continue to be renewed or that formal qualification certificates will be obtained in a timely manner, or at all, as and when they expire. If our project or project management companies are unable to obtain or renew their qualification certificates, they may not be permitted to continue their businesses with respect to property development and management, which could materially and adversely affect our business, results of operations and financial condition.

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

We believe our brands and trademarks are critical to our success. Any unauthorized use of our brands, trademarks and other intellectual property rights could harm our competitive advantages and business. Historically, China has not protected intellectual property rights to the same extent as certain other countries, and infringement of intellectual property rights continues to pose a serious risk to doing business in China. The measures we take to protect our brand and trademarks may not be adequate. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, we may lose these rights and this may have an adverse effect on our financial condition and results of operations.

We may be involved in disputes, legal and other proceedings arising out of our operations from time to time and may face significant liabilities as a result.

We may be involved in disputes with various parties involved in the development and the sale of our properties, including contractors, suppliers, construction workers, original residents, partners, banks and purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to our reputation, substantial costs and diversion of resources and management's attention. As most of our projects are comprised of multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the projects is perceived to be inconsistent with our representations and warranties made to such earlier purchasers. In addition, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in liabilities and cause delays to our property developments. See "Business — Legal Proceedings".

Our results of operations may be adversely affected if we fail to obtain, or there are material delays in obtaining, requisite governmental approvals for a significant number of our property developments or if the registered capital of our PRC subsidiaries is not paid timely.

The real estate industry in the PRC is heavily regulated by the PRC government. PRC property developers must comply with various requirements mandated by national and local laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, 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 documents, planning permits, construction 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 material delays or other impediments in fulfilling the conditions precedent to the approvals, 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 real estate industry in general or the particular processes with respect to the granting of the approvals. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. If we fail to obtain, or encounter material delays in obtaining, the requisite governmental approvals, the schedule of development and sale of our developments could be substantially disrupted which would materially and adversely affect our business, results of operations and financial condition. In addition, we are required to fully pay up the registered capital of our PRC subsidiaries within a stipulated timeframe, or otherwise obtain timely extension from the relevant authorities. Certain of our PRC subsidiaries are currently seeking such extensions. Any failure to obtain timely extensions may materially and adversely affect the operations of the relevant PRC subsidiary and, in turn, our business, results of operations and financial condition.

We may have non-compliant GFA at some of our completed property developments which may be subject to government approval and additional payments.

The local government authorities inspect our property developments after completion and issue completion certificates if the developments are in compliance with the relevant laws and regulations. If the total constructed GFA of a property development exceeds the amount of GFA authorized in the relevant land grant contracts or construction permit, or if the completed property contains built-up areas that are not in conformity with the plan authorized by the construction permit, we may be required to make additional payments or take corrective actions with respect to such non-compliant GFA before the property development may obtain a completion certificate. If we fail to obtain the completion certificate due to such non-compliance, we are not allowed to deliver the relevant properties or recognize the turnover from the relevant pre-sold properties and may also be subject to liabilities under the pre-sale contracts. There can be no assurance that the local government authorities will not find the total constructed GFA of our existing projects under development or any future property developments exceeding the relevant authorized GFA upon completion.

We may be unable to renew tenancies or re-lease space at rental rates equal to or above the current rental rates or at all for our investment properties when tenancies expire.

A portion of our turnover is derived from rental income from our office, retail, entertainment and cultural properties held as investment properties. Turnover from property investment contributed approximately 10.0%, 25.9% and 14.7% of our total turnover for the years ended December 31, 2011, 2012 and 2013, respectively. Our financial performance may be materially and adversely affected in the event of a decline in rental or occupancy levels, or difficulties in securing lease renewals or obtaining new tenants, or if existing tenants reduce the amount of space that they occupy for any reason. Currently, a majority of the tenancy agreements will expire within five years. There can be no assurance that tenants will renew their leases upon expiration or that we will be able to find replacement tenants at rental rates equal to or higher than those of the expiring tenancies. Moreover, we may be unable to obtain replacement tenants in time so as to minimize vacancy periods in between tenancies or to obtain rental rates equal to or above the current rental rates. Furthermore, if vacant space cannot be leased out for a significant period of time, the market value of our investment properties may be adversely affected. Any such situation may materially and adversely affect our business, financial condition and results of operations.

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

We incur significant construction and capital expenditures for development and renovation of investment properties and certain fixed costs in relation to rental property operations. Unlike properties developed for sale which can be pre-sold to finance property developments, our investment properties require significant capital expenditures up front but generate no cash inflow until the development has been completed and the leases of investment properties commence. In addition, our existing and future investment properties will require continuing capital expenditures associated with renovations and other capital improvements, some of which are mandated by health, safety or other regulations. The cost of construction and capital improvements could have a material adverse effect on our business, financial condition and results of operations. The fixed costs associated with owning investment properties, including rental property operating and maintenance expenses, taxes, other fees and payments, may be significant. We may be unable to reduce the fixed costs in a timely manner in response to a decline in demand for our investment properties for rental, and any failure to adjust our fixed costs may adversely affect our business, financial condition and results of operations.

We may not be successful in expanding into new cities.

We may seek city-core large-scale integrated property development opportunities in a number of select cities in China. Some Chinese cities are developed to such an extent that further city-core large-scale integrated property development is not practical or economically feasible for our projects. Furthermore, the rapid expansion of many other Chinese cities may lead to a scarce supply of land suitable for our city-core investment projects either because our expansion into these cities would be cost prohibitive or there is a shortage of land in the city's CBD on which we can develop our projects. Any expansion into new cities and the need to integrate operations arising from our intended expansion into new cities will couple with limited strategic locations on which we can develop our projects may have an adverse effect on our financial condition and results of operations.

RISKS RELATING TO OUR INDUSTRY

We are subject to regulations and macro-economic control measures implemented by the PRC government, which may adopt further measures intended to curtail the overheating of property development in China.

As a property developer, we are subject to extensive governmental regulations in virtually every aspect of our operations and are highly susceptible to changes in regulatory measures and policy initiatives implemented by the PRC government. 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, 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, 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. Policies that the PRC government has introduced to restrict development in the property sector mainly include:

- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low-to-medium-cost and small-to-medium-sized units and low-cost rental properties;
- the 90 sq.m. rule, requiring that at least 70% of residential projects approved or constructed on or after June 1, 2006 must consist of units with a GFA of less than 90 sq.m. per unit and that projects which have received project approvals prior to this date but have not obtained construction permits must adjust their planning in order to conform with this new requirement, with the exception that municipalities under direct administration of the PRC central government, cities with independent planning, and provincial capitals may deviate from such ratio under special circumstances upon approval from the Ministry of Construction (the “**90 sq.m. Rule**”);
- increasing the minimum amount of down payment from 20% to 30% of the purchase price of the underlying property if the underlying property has a GFA of 90 sq.m. or more, effective from June 1, 2006; increasing the minimum amount of down payment to 40% of the purchase price of the second or subsequent residential property and the interest rate of mortgage loans to 1.1 times the then benchmark rate promulgated by the PBOC for residential property purchasers who already have outstanding residential mortgage loans, effective from September 27, 2007; increasing the minimum amount of down payment to 50% of the purchase price for the multiple residential properties bought with a loan, effective from April 17, 2010, and increasing the minimum amount of down payment to 60% of the purchase price for the second residential property bought with a bank loan or housing provident fund, effective from January 26, 2011. PRC banks are also required to significantly increase, at their discretion, the down payment and interest rate requirement for those who purchase multiple residential properties. Effective from September 29, 2010, PRC banks are also required to stop providing mortgage loans for the third or subsequent residential property temporarily and refuse to provide mortgage loans to non-local mortgage loan applicants who cannot provide proof of one year or above of local tax payment record or social security payment record;
- restricting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties and prohibiting the commercial banks from granting new project loans to property developers that hold idle land or that have participated in speculative land dealing; prohibiting commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans; and prohibiting commercial banks from making additional loans based on the increased value of the underlying property prior to the full repayment of an existing loan;
- requiring that at least 50% of the total project investment must be in the form of registered capital for newly established foreign-invested property development companies with total investments of US\$10 million or more, effective July 11, 2006;
- prohibiting foreign-invested property development companies that obtained approval certificates from and registered with the PRC Ministry of Commerce (“**MOFCOM**”) on or after June 1, 2007 from incurring any overseas loans, promulgated on July 10, 2007;
- imposing a business tax levy on the entire sales proceeds from resale of properties if the holding period is shorter than five years, effective from June 1, 2006, as opposed to two years as such levy was initially implemented in 2005; such business tax was reduced during the period from

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January 1, 2009 to December 31, 2009; if the holding period is more than two years, business tax for transfer of ordinary residences will not be imposed, whereas if the holding period is shorter than two years, business tax based on the basis of price difference between the transfer income and original price for transfer of ordinary residences shall be paid;

- increasing the annual tax rate on urban land use rights from RMB0.5-10 to RMB1.5-30 per sq.m. for metropolitan areas depending on the location and type of use, and requiring foreign investment enterprises using urban land, for the first time, to pay the tax on urban land use from January 1, 2007;
- regulating the settlement of LAT by property development enterprises more stringently;
- effective November 1, 2007, requiring property developers to pay the land premium for the entire parcel of land under the land grant contract in full before they earn land use rights certificates and commence development of the land;
- effective July 1, 2008, delegation by the MOFCOM of its authority to its provincial branches to review the registration materials submitted by foreign-invested real estate enterprises;
- effective November 18, 2009, requiring the minimum down payment for land premium to be 50% and requiring the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions;
- effective January 28, 2011, on a trial basis, introducing property tax in Shanghai and Chongqing;
- effective May 1, 2011, requiring the sale of commodity houses to mark prices on a per unit basis, and publicly disclose the relevant fees which will be charged and other details relating to the sale price of such unit; and
- effective July 14, 2011, requiring second or third tier cities where housing prices are rising rapidly to adopt purchase restrictions. A more detailed set of standards on such cities was issued on August 17, 2011.
- the recent purchase restriction policy in some cities from January 2011, which is described below.

For further details, see “*Regulation*”.

Historically, our apartments that are larger than 90 sq.m. have commanded higher selling prices and gross profit margins than smaller apartment units and turnover. We continue to enjoy higher gross profit margins on our sales of apartments larger than 90 sq.m., which we attribute in part to a perceived shortage of supply of these properties as a result of the 90 sq.m. Rule. In the future, the proportion of our sales of larger apartments may decrease as a result of the recent suspension of land supply for new villa projects and the 90 sq.m. Rule. Our profitability may be adversely affected if we fail to develop strategies to address changes in product mix that may be caused by such new regulations (or other similar regulations) in an effective and timely manner or are not able to develop similarly high-margin products. Further, there can be no assurance that we will not be required to adjust the design and planning of our properties for which we have not yet obtained construction permits in order to comply with the 90 sq.m. Rule. Any such adjustments may cause delay to the development schedules of the affected properties.

On February 20, 2013, the PRC State Council promulgated five specific measures on regulating the real estate market (the “**National Five Guidelines**”), including establishing appropriate mechanism to stabilize the real estate price, suppressing the speculative investment on real estate, increasing the provision of ordinary commodity housing and land supply, accelerating the planning and construction of indemnificatory housing and strengthening the regulation of the real estate market. The National Five Guidelines set stricter requirements on the purchase and sale of residential housing. Specific measures include imposing personal income tax at the rate of 20% for the transfer of residential housing, enforcing higher restriction on buying the second residential house and increasing the down payment and interest rate of loan for buying the second residential house. Most municipal governments have adopted implementation rules accordingly, including Shanghai, Hangzhou, Wuhan, Chongqing, Dalian, where most of our project portfolios are located. These measures show the PRC government’s intention to further curb speculation in the real estate market. These purchase restrictions, particularly those imposed in the cities where our projects are located, may create uncertainty and have an adverse impact on the demand for our properties. As a result, our business prospects, results of operations and financial condition may be adversely affected.

Many of the property industry policies carried out by the PRC government are unprecedented and are expected to be amended and revised over time. Other political, economic and social factors may also lead to further adjustments and changes of such policies. The PRC government could adopt additional and more stringent industry policies, regulations and measures in the future, which could further slow property development in China. Our results of operations may be materially affected by any of these factors.

If we fail to adapt our operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt our business, reduce our sales or average selling prices, or cause us to incur additional costs, our business prospects, results of operations and financial condition may be materially and adversely affected.

For a more detailed description of the PRC government’s measures to curtail the overheating of property development, see “*Regulation*”.

Our sales of residential properties may be adversely affected by the recent purchase restriction policy in the PRC.

Pursuant to the January 26, 2011 Circular, as a general rule, municipalities, provincial capitals and cities with high housing prices will implement purchase restrictions for a specified period. In principle, (a) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one house (including the new commodity residential house or a second hand one); and (b) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family that cannot provide the local payment of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential houses.

For the purpose of implementing the January 26, 2011 Circular, the Shanghai Municipal Government promulgated the Notice on Further Strengthening the Macroeconomic Control over Shanghai Real Estate Market (上海市人民政府辦公廳印發關於本市貫徹《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》實施意見的通知) dated January 31, 2011. This notice provides that (i) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for more than one year (on a cumulative basis) within the most recent two years is limited to purchasing one house (including the new commodity residential house or a second hand one); and (ii) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local

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residential family that cannot provide evidence of local tax and/or social insurance payment for more than one year (on cumulative basis) within the most recent two years shall be suspended from purchasing any other commodity residential houses in Shanghai, otherwise, these newly-purchased houses cannot be registered with relevant real estate authorities. Furthermore, according to the Notice on Further Implementation of the Macroeconomic Control Policies over Shanghai Real Estate Market (上海市人民政府辦公廳關於進一步嚴格執行房地產市場各項調控政策的通知), promulgated by Shanghai Municipal Government on July 26, 2012, Shanghai shall continue implementing the differential housing loan policy, property tax reform and purchase restriction strictly. In addition to Shanghai, other main cities, including Wuhan, Foshan and Dalian, have also announced their new purchase limit polices which are similar to the requirements in the January 26, 2011 Circular.

On February 26, 2013, the General Office of the PRC State Council issued the Circular of the General Office of the State Council on Continuing Regulation of the Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知) (“**Circular 17**”). Circular 17 provides that the municipalities, provincial capitals and cities which have already implemented purchase restrictions in accordance with the January 26, 2011 Circular should continue enforcing such purchase restrictions. Such restrictions apply to first or second hand commodity residential houses in all administrative districts of a particular city and require the examination of potential purchasers’ qualification to purchase to be carried out prior to the signing of any purchase agreement. In addition, a non-local residential family that owns one or more houses and a non-local residential family that cannot provide evidence of the payment of local taxes and/or social insurance for a required period shall continue being suspended from purchasing any other commodity residential houses. Pursuant to Circular 17, Shanghai and Chongqing Municipal People’s Governments promulgated their opinions on March 30, 2013, and the General Office of People’s Government of Guangdong Province promulgated its opinion on March 25, 2013. These opinions show the PRC government’s intention to further curb speculation in the real estate market through restrictive measures on purchases of multiple houses, including raising the down payment ratio and interest rate required for second-house purchasers and levying income tax.

On November 8, 2013, Measures on Further Implementation of Regulation of the Real Estate Market (進一步嚴格執行國家房地產市場調控政策相關措施) was announced after the executive meeting of the Shanghai Municipal Government. According to the Measures, residential family who purchases a second housing through home loans shall be required to make a down payment of 70%. The Measures also states that non-local resident shall be required to provide evidence of local tax or social insurance payment for more than two years (on a cumulative basis) within the latest three years (calculating till the date of purchasing) in order to purchase houses in Shanghai. Failing to do so, newly purchased houses cannot be registered in relevant real estate authorities.

These purchase restrictions, particularly those imposed in the cities where our projects are located, may have an adverse impact on the demand for our properties. As a result, our business prospects, results of operations and financial condition may be materially and adversely affected.

The PRC property market has been cyclical and our property development activities are susceptible to significant fluctuations.

Historically, the PRC property market has been cyclical. The rapid expansion of the property market in certain major provinces and cities in China in the early 1990s culminated in an oversupply in the mid-1990s and a corresponding fall in property values and rentals in the second half of the decade. Since the late 1990s, private residential property prices and the number of residential property development projects have gradually increased in major cities as a result of an increase in demand driven by domestic economic growth. In particular, prices of residential properties in certain major

PRC provinces and cities such as Shanghai have experienced rapid and significant growth. However, there can be no assurance that the problems of oversupply and falling property prices that occurred in the mid-1990s will not recur in the PRC property market and the recurrence of such problems could adversely affect our business and financial condition.

The cyclical property market in the PRC affects the optimal timing for the acquisition of sites, pace of development as well as the sale of properties. This cyclicity, combined with the lead-time required for the completion of projects and the sale of properties, means that our results of operations relating to property development activities may be susceptible to significant fluctuations from year to year.

Our sales of residential properties may be adversely affected if interest rates increase or prospective buyers are not able to obtain mortgage financing.

Mortgages are becoming increasingly popular as a means of financing property purchases in the PRC. Most of the prospective buyers of our residential properties are expected to finance a substantial portion of the purchase price with mortgage loans. Because of the need for mortgages, demand for residential properties is likely to be adversely affected by increases in interest rates, which would make residential properties less affordable for prospective purchasers. Further, the Shanghai local government has introduced a ban on residential bridge loans, as a result of which homeowners will have to pay off the balance of their existing mortgage before they can sell to the next buyer if the transfer takes place within one year from the date of the original purchase. In addition, amongst the recent PRC government measures designed to stabilize housing prices, as of June 1, 2006 the minimum down payment for individual residential properties mortgage was set at 30% of the total purchase price, except for low-income purchasers purchasing residential units of less than 90 sq.m. In addition, the PRC government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. The CBRC issued a regulation on September 2, 2004 to limit mortgage loans on properties to 80% of the sale price of the underlying properties. On March 17, 2005, the PBOC set forth the minimum property mortgage loan rate which is 0.9 times the corresponding benchmark lending rates. As a result, for example, the minimum rate for property mortgages with a term of more than five years was increased to 5.51%, 0.2 percentage points higher than the then existing minimum mortgage loan rate. In May 2006, the PRC government increased the minimum amount of down payment to 30% of the purchase price of the underlying property if such property had a GFA of 90 sq.m. or more. In addition, in September 2007 the PBOC and CBRC jointly promulgated a regulation to increase the minimum amount of down payment to 40% of the purchase price of the second or subsequent residential property and the interest rate of mortgage loans to 1.1 times the then benchmark rate promulgated by the PBOC for residential property purchasers who already have outstanding residential mortgage loans and are purchasing a second or subsequent residential property. PRC banks are also required to significantly increase, at their discretion, the down payment and interest rate requirement for those who purchase multiple residential properties and are prohibited to make additional loans based on an increased value of the underlying property prior to the full repayment of existing loans. Such policy was emphasized in the Notice on Further Strengthening the Risk Management of Mortgage Loans promulgated by the CBRC in June 2009. On April 17, 2010, the State Council issued the Notice on Resolutely Curbing the Rapid Rising of the Property Price in Certain Cities (Guofa (2010) No. 10), required the minimum down payment of the first residential property with an area of more than 90 sq.m. to be 30%; the down payment of multiple residential properties bought with a loan shall be no less than 50%, and the interest rate of mortgage loans be 1.1 times the then benchmark rate promulgated by the PBOC; PRC banks are also required to significantly increase, at their discretion, the down payment and interest rate requirement for those who have purchased multiple residential properties or more residential properties with loans. On September 29, 2010, the PBOC and CBRC promulgated the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy, which stipulated that commercial banks should stop providing housing mortgage to any member of a family unit purchasing the third or the

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subsequent residential housing unit. According to media reports, since October 2011, several PRC commercial banks have tightened their loan policies for real estate by raising their lending rates. For example, some branches of China Construction Bank have increased the interest rate for mortgage loans to 1.05 times the lending rate published by PBOC during the same period for residential property purchasers who purchase their first residential units. If the availability or attractiveness of mortgage financing is reduced or limited, many of our prospective customers may not be able to purchase our properties and, as a result, our business, liquidity and results of operations could be adversely affected.

The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations.

Under PRC tax laws and regulations, our PRC subsidiaries are subject to LAT, which is collected by local tax authorities. All income from the sale or transfer of land use rights relating to state-owned land, 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 by the relevant tax laws. Certain exemptions are available for the sale of ordinary standard residential houses if the appreciation values do not exceed 20% of the total deductible items as defined in the relevant tax laws. Sales of commercial properties are not eligible for such exemption.

On December 28, 2006, the PRC State Administration of Taxation issued a circular, which became effective on February 1, 2007. Under the circular, LAT must be assessed if any of the following criteria are met: (a) the property development project has been completed and fully sold; (b) the property developer transfers the entire development project prior to completion; or (c) the land use rights with respect to the project are transferred. In addition, the relevant tax authorities may assess LAT if any of the following criteria are met:

- for completed property development projects, the transferred GFA represents more than 85% of total saleable GFA, or the proportion represented is less than 85%, but the remaining saleable GFA has been leased out or used by the developer;
- the project has not been sold out for more than three years after obtaining the sale or pre-sale permit;
- the developer applies for cancellation of tax registration without having settled the relevant LAT; or
- other conditions stipulated by the provincial tax authorities.

For the years ended December 31, 2011, 2012 and 2013, we made LAT payments in the amount of RMB284 million, RMB1,045 million and RMB629 million (US\$104 million), respectively. The LAT paid by us was not based on the progressive rates specified in the relevant PRC laws and regulations but at a provisional rate which depends on the types and specifications of the relevant property development project.

Due to the time gap between the provisional payment and subsequent assessment, we estimate and make provision for the full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations. Our LAT provision for the whole project is determined based on the estimated total sales proceeds and the estimated total development costs of such project by applying the relevant PRC laws and regulations. Upon recognition of sales of the relevant property units, the corresponding LAT provision is accrued in the Group's consolidated financial statements on a pro rata basis for the saleable floor area sold. Our LAT provision is subject to adjustment if our estimates change.

There can be no assurance that the tax authorities will agree with the basis on which we calculate our LAT obligations. In the event that LAT eventually collected by the tax authorities upon completion of the tax assessment exceeds the amount that we have provided for, our net profits after tax will be adversely affected. On May 19, 2010, the PRC State Administration of Taxation issued a notice on LAT liquidation issues, listing different situations under which LAT shall and shall not be deducted. Then on May 25, 2010, Notice of the State Administration of Taxation on Strengthening the Collection of Land Value Added Tax was issued. By implementing such notices, the PRC government seeks to strengthen LAT liquidation and collection. With respect to property development projects that have not met the tax assessment eligibility criteria, we have paid and will continue to pay provisional LAT as required by the tax authorities. The LAT that is ultimately payable upon completion of the tax assessment of such projects in the future may be different to the provisional LAT paid by us.

Under the Enterprise Income Tax Law (the “EIT Law”), we may be classified as a “resident enterprise” of China. Such classification could result in unfavorable tax consequences to us and our non-PRC noteholders.

Under the EIT Law, enterprises established outside of China whose “*de facto* management bodies” are located in China are considered “PRC resident tax enterprises”, and consequently will be treated in a manner similar to Chinese enterprises for enterprise income tax purposes. The EIT Law implementing rules define “*de facto* management” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. However, it is still unclear whether PRC tax authorities will classify entities such as the Issuer or the Parent Guarantor as a “resident enterprise”. If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. We may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest from any investment of any portion of the offering proceeds and other income sourced from outside the PRC would be subject to PRC enterprise income tax at a rate of 25%. Furthermore, if we are considered a “resident enterprise”, interest payable to certain “non-resident enterprise” holders on the Notes may be treated as income derived from sources within China and be subject to PRC withholding tax at a rate of 10%, and capital gains realized by holders of Notes may be treated as income derived from sources within China and be subject to a 10% PRC tax, in each case subject to any relief for holders who qualify for the benefits of a double-taxation treaty with China. In the case of non-resident holders of Notes other than enterprises, a withholding tax applicable to interest payments and capital gains may be imposed at a rate of 20%. If we are required under the EIT Law to withhold PRC tax on our interest payable to our non-resident noteholders, we will be required (subject to certain exceptions) 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 to the uncertainty as to the application of the new “resident enterprise” classification, the PRC government could amend or revise the taxation laws, rules and regulations to impose stricter tax requirements, higher tax rates or apply the EIT Law, or any subsequent changes in PRC tax laws, rules or regulations retroactively. As there may be different applications of the EIT Law and any amendments or revisions, comparisons between our past financial results may not be meaningful and should not be relied upon as indicators of our future performance. If such changes occur or are applied retroactively, they could have a material adverse effect on our results of operations and financial condition.

RISK FACTORS

The introduction and implementation of new property tax policy may have an adverse effect on the sales of the projects located in the pilot cities.

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

Under the Shanghai Provisional Rules on the Trial in Collection of Property Tax on Certain Individual Residential Houses (上海市開展對部分個人住房徵收房產稅試點的暫行辦法), (i) starting on January 28, 2011, Shanghai shall, on a trial basis, levy a property tax on a newly bought second or succeeding house in Shanghai which is purchased by a local resident family and each newly bought house in Shanghai which is purchased by a non-local resident family; (ii) the applicable rate of the property tax is 0.6% or 0.4%, respectively; (iii) the property tax shall be temporarily payable on the basis of 70% of the transaction value of the taxable house; and (iv) the Shanghai property tax rule provides several measures for tax deduction or exemption. Under the Chongqing Provisional Rules on Collection and Administration of Property Tax of Individual Residential Houses (重慶市關於開展對部分個人住房徵收房產稅改革試點的暫行辦法) issued by the Chongqing government which became effective on January 28, 2011, property tax will be imposed on (i) stand-alone residential properties (such as villas) owned by individuals, (ii) high-end residential properties purchased by individuals on or after January 28, 2011, the sale prices per square meter of which are two or more times the average price of newly constructed commodity residential properties developed within the nine major districts of Chongqing in the last two years and (iii) the second or further ordinary residential properties purchased on or after January 28, 2011 by non-resident individuals who are not employed in and do not own an enterprise in Chongqing, at rates of 0.5%, 1% or 1.2%, respectively of the purchase price of the property. See “*Regulation — Real estate tax*”. If deemed successful in Shanghai and Chongqing as a tool for controlling the development of the PRC property market, the new property tax policy may be extended by the PRC government into other cities. The introduction and implementation of such property tax policy may have an adverse effect on the sales of the projects we currently have or will have in future in Chongqing, Shanghai and other cities where the new property tax policy may apply.

We may not be able to obtain a sufficient number of sites or may have to forfeit land being developed if we do not comply with the terms of the relevant land grant contracts.

We derive the majority of our turnover from the sale of properties that we have developed. This turnover stream is dependent on our ability to complete and sell our property developments. To maintain or expand our business in the future, we will be required to replenish our land reserve with suitable sites for developments. Our ability to identify and acquire a sufficient number of suitable sites is subject to a number of factors that are beyond our control.

The PRC government controls substantially all of the country’s land supply and regulates the means by which real estate developers, including us, obtain land sites for property developments. As a result, the PRC government’s land supply policies affect our ability to acquire land use rights for sites we identify and the costs of any acquisition. In May 2002, the PRC government introduced regulations requiring government departments and agencies to grant state-owned land use rights for residential or commercial property developments through public tender, auction or listing-for-sale. Such requirement has been further emphasized in the Regulations on the Grant of State-owned Construction Land Use Rights through Public Tender, Auction and Listing-for-sale promulgated by the Ministry of Land and Resources in September 2007. We will be required to go through these processes before we can acquire the land use rights to the desirable sites, which may result in higher land premiums than those we paid in the past. While we believe that our current level of land reserve should be able to support our property development projects for five years or more, the viability or growth of our business may not be sustainable if we are unable to obtain additional land sites for development at prices that allow us to achieve reasonable returns.

Under PRC law, if a developer fails to develop land according to the terms of the land grant contract (including those relating to payment of fees, land use or the time for commencement and completion of the development of the land), the relevant land authorities may issue a warning to, or impose a penalty on, the developer or require the developer to forfeit the land use rights. Such requirement has been further prescribed in the recent PRC government measures aimed at stabilizing the real property sector. Furthermore, on January 3, 2008, the State Council issued a Circular on the Promotion of Economizing and Intensifying the Land Use, which emphasizes the enforcement of the current rules on idle land fees. The notice requires an additional land premium to be levied on the idle land, especially those used for property development, and the relevant governmental authorities will formulate and issue further rules and regulations on such requirements. Specifically, if we fail to commence development for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice on us and impose an idle land fee of up to 20% of the land premium. If we fail to commence development for more than two years from the commencement date stipulated in the land grant contract, the land use rights are subject to forfeiture by the PRC government unless the delay in development is caused by government actions or force majeure. On September 21, 2010, the MLR and the MOHURD issued a notice that prohibits real estate developers from participating in bidding for land if they fail to commence development of land held by them as required by original land grant contracts for more than one year due to their own reasons or do not comply with land development requirements specified in land grant contracts. There can be no assurance that circumstances leading to possible forfeiture of land or delays in the completion of a property development may not occur in the future.

In this regard, our land grant contracts with relevant land authorities typically specify the dates for us to complete the relocation process and to commence or complete construction and specify the amount of land grant fees and relocation expenses and when they should be paid. For a variety of reasons, including delays in the relocation process and delays in the delivery of project sites to us by the relevant PRC governmental authorities, we have experienced delays in the dates specified in these contracts for construction of some of our development projects, including the Shanghai Taipingqiao, Shanghai Rui Hong Xin Cheng, Chongqing Tiandi, Wuhan Tiandi and Foshan Lingnan Tiandi projects, resulting in delays in the payment of required land grant fees and relocation expenses and therefore the availability of the site for our use. In the past, we have been required to pay late penalties, which are required under certain of the land grant contracts, to the relevant land authority with respect to delays in the payment of land grant fees. We may also be required to pay such late penalties in the future.

Potential liability for environmental problems could result in substantial costs.

We are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations which apply to any given project development site vary greatly according to the site's location, the site's environmental condition, the present and former uses of the site, as well as adjoining properties. Compliance with environmental laws and conditions may result in delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict project development activity in environmentally sensitive regions or areas.

As required by PRC law, each project developed by a property developer is required to undergo an environmental assessment, and an environmental impact assessment report is required to be submitted to the relevant government authorities for approval before commencement of construction. If such requirement is not complied with, the local environmental authority may issue orders to suspend construction of the project and instruct the construction unit to go through formalities within a time limit. If the construction unit fails to do so at the expiration of the time limit, the local environmental authority may impose a fine of an amount between RMB50,000 and RMB200,000 on us with respect to such project. In the event that a suspension of construction and/or a fine is imposed, our financial

RISK FACTORS

condition may be adversely affected. Although the environmental investigations conducted on our developments to date have not revealed any environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations, it is possible that these investigations did not reveal environmental hazards or their extent and resulting liabilities, and there may be material environmental liabilities of which we are unaware. There can be no assurance that a future environmental investigation will not reveal any material environmental hazards and liabilities. Also, there can be no assurance that the PRC government will not change the existing laws and regulations or impose additional or stricter laws or regulations, the compliance with which may cause us to incur significant capital expenditure. In addition, there can be no assurance that we can comply with any such laws and regulations.

We may be liable to our customers for damages if we do not deliver individual property ownership certificates in a timely manner.

Property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within 90 days after delivery of the property or within a time frame set out in the relevant sale and purchase agreements. Property developers, including us, generally elect to specify the deadline for the delivery of the individual property ownership certificates in the sale and purchase agreements to allow sufficient time for the application and approval processes. Under current regulations, we are required to submit requisite governmental approvals in connection with our property developments, including land use rights documents and planning and construction permits, to the local bureau of land resources and housing administration within three months after the receipt of the completion and acceptance certificate for the relevant properties and apply for the general property ownership certificate with respect to these properties. We are then required to submit within regulated periods after delivery of the properties, the relevant property sale and purchase agreements, identification documents of the purchasers, proof of payment of deed tax, together with the general property ownership certificate, for the bureau's review and the issuance of the individual property ownership certificates with respect to the properties purchased by the respective purchasers. Delays by the various administrative authorities in reviewing the application and granting approval as well as other factors may affect timely delivery of the general as well as individual property ownership certificates. We may become liable to purchasers for late delivery of the individual property ownership certificates due to delays in the administrative approval processes or for any other reason beyond our control.

RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

Adverse changes in the economic and political policies of the PRC government could have an adverse effect on overall economic growth in China, which may adversely affect our business.

We conduct substantially all of our business operations in the PRC. Accordingly, our financial condition, results of operations and prospects depend to a significant extent on economic developments in the PRC. The PRC economy differs from the economies of most other countries in many respects, including the degree of government intervention in the economy such as price control, government control of foreign exchange and the allocation of resources, the general level of economic development and growth rates. While the PRC economy has experienced significant growth in the past 30 years, this growth has been uneven across different periods, regions and amongst various economic sectors. The PRC government also exercises significant control over the PRC's economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government has, at times, implemented a number of measures, such as increasing the PBOC's statutory deposit reserve ratio and imposing commercial bank lending guidelines, which had the effect of slowing the growth of credit availability.

In 2008 and 2009, in response to the global financial crisis, the PRC government relaxed such requirements but, since early 2010, has begun to tighten such requirements again, partly in response to the recovery in the growth of the PRC economy. Any future actions and policies adopted by the PRC government could materially affect the PRC economy, which may adversely affect our business.

PRC regulations on loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC operating subsidiaries.

Loans to or investments in our PRC subsidiaries are subject to approval by or registration with relevant governmental authorities in the PRC. We may also decide to finance our subsidiaries by means of capital contributions. According to the relevant PRC regulations on foreign-invested enterprises in the PRC, depending on the total amount of investment, capital contributions to our PRC operating subsidiaries may be subject to the approval of MOFCOM or its local branches. We may not obtain these government approvals on a timely basis, or at all, with respect to future capital contributions by us to our subsidiaries. If we fail to receive such approvals, our ability to use the proceeds of the Notes and to capitalize our operations in the PRC may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

Fluctuations in the value of RMB may have an adverse effect on our financial condition and results of operations.

The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other factors, changes in international and national political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of attaching the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Following the removal of the U.S. dollar peg, Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Since July 2008, Renminbi has traded at a relatively stable level within a narrow range against the U.S. dollar, but RMB has again begun gradual further appreciation against the U.S. dollar since the middle of 2010. On March 14, 2014, the PBOC announced its decision to increase the flexibility in Renminbi-to-U.S. dollar currency exchange rate (關於決定擴大外匯市場人民幣兌美元匯率浮動幅度的公告). According to the decision, the floating band for the trading prices in the inter-bank foreign exchange market of Renminbi against the U.S. dollar is enlarged from 1% to 2%, effective from March 17, 2014.

There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and possibly more significant appreciation of Renminbi against foreign currencies. Our turnover and costs are mostly denominated in Renminbi, and a significant portion of our financial assets are also denominated in Renminbi. Any fluctuation in the exchange rate between Renminbi and the U.S. dollar could result in foreign currency translation losses for financial reporting purposes.

We and holders of any of our outstanding notes may be subject to risks presented by fluctuations in exchange rates between Renminbi and other currencies, particularly U.S. dollars.

Some of our outstanding notes are denominated in U.S. dollars, while substantially all of our turnover is generated by our PRC operating subsidiaries and is denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. The PBOC has enlarged the floating band several times since then to proceed with the reform of the Renminbi exchange rate regime to increase the Chinese currency's exchange rate flexibility.

RISK FACTORS

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, it is possible that they may result in a devaluation of Renminbi against the U.S. dollar, in which case our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar and H.K. dollar denominated indebtedness and other obligations. Such devaluation could also adversely affect the value, translated or converted to U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under some of our outstanding notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between Renminbi and other currencies. Each of the Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the indentures governing the applicable notes.

Uncertainties with respect to the PRC legal system could have an adverse effect on our operations.

As substantially all of our business is conducted, and substantially all of our assets are located, in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes. Unlike those of common law systems, decided legal cases have little value as precedents in subsequent legal proceedings. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. These laws, regulations and legal requirements are relatively new and are often changing, and their interpretation and enforcement involve significant uncertainties that could limit the reliability of the legal protections available to us. We cannot predict the effects of future developments in the PRC legal system. We may be required in the future to procure additional permits, authorizations and approvals for our existing and future operations, which may not be obtainable in a timely fashion or at all. An inability to obtain such permits or authorizations may have an adverse effect on our financial condition and results of operations. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

It may be difficult to serve process within the PRC or to enforce any judgment obtained from non-PRC courts against us or our Directors.

Our operating subsidiaries are incorporated in the PRC, substantially all of our Directors currently reside within the PRC, and all or substantially all of our assets are located within the PRC. The PRC does not currently have treaties providing for the reciprocal recognition or enforcement of judgments of courts located in the United States, the United Kingdom, Singapore, Japan and most other western countries. An arrangement between China and the Hong Kong Special Administrative Region on Reciprocal Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdictions as Agreed to by the Parties Concerned was signed on July 14, 2006 and came into effect on August 1, 2008. However, there are many restrictions to such arrangement. As a result, it may not be possible for investors to effect service of process upon our subsidiaries or our Directors resident in the PRC pursuant to the authority of non-PRC courts. Further, the recognition and enforcement in the PRC of judgments of courts outside the PRC might be difficult or impossible.

Natural disasters, acts of war, occurrence of epidemics, and other disasters could affect our business and the national and regional economies in the PRC.

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other natural disasters which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC, including certain cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought or epidemics.

For instance, serious earthquakes and their successive aftershocks hit Sichuan province in May 2008 and April 2013, resulting in tremendous loss of life and injury, as well as destruction of assets in the region. In addition, any future outbreak of epidemics or other similar adverse public developments may, among other things, significantly disrupt our business, including limiting our ability to travel or ship our products within the PRC. An outbreak may also severely restrict the level of economic activity in affected areas, which may in turn have a material and adverse effect on our results of operations, financial condition and business. We have not adopted any written preventive measures or contingency plans to combat any future epidemic outbreaks.

Acts of war and terrorist attacks or potential occurrence of such adverse events may cause damage or disruption to us, our employees and our markets and may also create uncertainty and cause our business to suffer in ways that currently we cannot predict.

RISKS RELATING TO THE NOTES

The Parent Guarantor is a holding company and the Issuer's operations are limited to holding company and financing activities, and the Notes will be effectively subordinated to all indebtedness and other liabilities of the Issuer's subsidiaries.

The Parent Guarantor is a holding company with no material operations or assets of its own. The Issuer does not have significant operations other than financing activities and ownership of its subsidiaries. The Parent Guarantor conducts operations through its subsidiaries. The Parent Guarantor's primary assets consist of its 100% equity interest in the Issuer and the Issuer's primary assets consist of its direct and indirect ownership interests in its subsidiaries. None of the subsidiaries will guarantee the Notes on the issue date, and the subsidiaries will not be required to guarantee the Notes after the issue date unless they have also guaranteed other indebtedness of the Issuer or the Parent Guarantor after the issue date. Creditors (including trade creditors) and preferred shareholders of our subsidiaries will therefore generally be entitled to payment from our subsidiaries' assets before such assets can be distributed to the Issuer and made available to holders of the Notes. As a result, the Issuer's and the Parent Guarantor's payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our subsidiaries, including obligations to trade creditors, and all claims of creditors and preferred shareholders of our subsidiaries will have to be satisfied before assets of those subsidiaries would be available for distribution to the Issuer, the Parent Guarantor or their creditors, including holders of the Notes.

As of December 31, 2013, the Issuer's subsidiaries had total bank and other borrowings of approximately RMB21,543 million (US\$3,559 million) and capital commitments of approximately RMB12,219 million (US\$2,018 million). The Notes and the indenture governing the Notes permit us, including our subsidiaries, to incur additional indebtedness and other liabilities, subject to certain limitations. There can be no assurance that the subsidiaries' assets will be sufficient to fully repay their indebtedness, other liabilities and the Notes or that the subsidiaries will be able to repay their indebtedness and other liabilities if there is an acceleration of such indebtedness or other liabilities.

RISK FACTORS

“Unrestricted Subsidiaries” will not be subject to various covenants under the indenture governing the Notes.

Under the terms of the Notes, CXTD Holding and each of its subsidiaries from time to time will be Unrestricted Subsidiaries. In addition, the Issuer has flexibility under the terms of the Notes to redesignate any of China Xintiandi and its other subsidiaries as “Unrestricted Subsidiaries”. Subject to certain conditions, among other things, the “China XTD Ownership Condition” being met and the absence of an event that would constitute a default and be continuing at the time of such designation, China Xintiandi and any Restricted Subsidiary that is a subsidiary of China Xintiandi may be designated as an “Unrestricted Subsidiary”. In addition, the Company may be able to transfer certain properties to the China Xintiandi Group in exchange for new securities issued by China Xintiandi Group. The business assets and liabilities may no longer be part of the credit underlying the Notes or be subject to various covenants under the indenture governing the Notes. The effects of designation of an entity as an “Unrestricted Subsidiary” include, but are not limited to:

- any entity designated as an Unrestricted Subsidiary may not be subject to the covenants under the indenture governing the Notes; and
- interest expenses on Indebtedness (as defined in the indenture governing the Notes) of any entity designated as an Unrestricted Subsidiary will not be included in the calculation of our Consolidated Interest Expense (as defined in the indenture governing the Notes), other than such interest expenses on Indebtedness that is Guaranteed by the Parent Guarantor, the Issuer or a Restricted Subsidiary.

As a result of any redesignation, the value of the assets subject to the covenants under the indenture governing the Notes may decrease and the market pricing and trading of the Notes may be materially affected.

The subsidiaries of the Parent Guarantor are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to the Parent Guarantor, the Issuer and other subsidiaries.

As a holding company, the Parent Guarantor depends, and as a holding and financing company, the Issuer depends, upon the receipt of dividends and the repayment of intercompany loans or advances from their subsidiaries and joint venture companies to satisfy their obligations, including their obligations under the Notes. The ability of their subsidiaries and joint venture companies to pay dividends or repay intercompany loans or advances to their shareholders (and ultimately to the Issuer) is subject to, among other things, distributable earnings, cash flow conditions, applicable law, and restrictions contained in the relevant constitutive documents, shareholders’ agreements (if any) or debt financing agreements of such subsidiaries and joint venture companies. Many of the subsidiaries of the Parent Guarantor, including, without limitation Marble Way Limited, Brixworth International Limited, Hollyfield Holdings Limited, East Trend Limited, Portspin and Infoshore International Limited, are restricted in their ability to pay dividends or repay intercompany loans or advances by financing agreements governing indebtedness of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities would not be available to the Parent Guarantor or the Issuer to make payments on the Notes or the Parent Guarantee. These restrictions could reduce the amounts that the Parent Guarantor or the Issuer receives from their subsidiaries, which would restrict the Issuer’s ability to meet its payment obligations under the Notes and the ability of the Parent Guarantor to meet its payment obligations under the Parent Guarantee.

Most of our business operations and our assets are at our PRC subsidiaries. PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Such profits differ from profits determined in accordance with IFRS in certain significant respects, including the use of different bases of recognition of turnover and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. Furthermore, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated that specifically exempts or reduces such withholding tax. While the PRC and Hong Kong have an avoidance of double taxation arrangement under which such withholding tax rate may be reduced to 5% if the non-PRC parent company in question is a Hong Kong resident and directly holds a 25% or more interest in the relevant PRC subsidiary, withholding is still required. As a result of such restrictions, there could be timing limitations on payments from our PRC subsidiaries that would be necessary to meet payments required by the Notes or satisfy obligations of the Parent Guarantor under the Parent Guarantee, and there could be restrictions on payments required to redeem the Notes at maturity or as required in the event of any early redemption. See “*Description of Other Material Indebtedness*”.

These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict the Issuer’s and the Parent Guarantor’s ability to meet obligations under the Notes. As a result, there can be no assurance that we will have sufficient cash flows from dividend distributions or repayment of intercompany loans or advances to satisfy our obligations under the Notes.

The Notes are unsecured obligations.

As the Notes are unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of our indebtedness.

If any of these events occur, our assets may not be sufficient to pay, or support the payment of, amounts due on the Notes.

We have made, and in the future may continue to make, significant investments in non-controlling interests.

We have made, and in the future may continue to make, significant investments in entities engaged in permitted business in which we have a non-controlling interest. We may use a significant portion of the proceeds of the offering to make these types of investments. Although the indenture governing the Notes restricts us and our restricted subsidiaries from making investments in non-controlling interests, these restrictions are subject to important exceptions and qualifications. For a more detailed description of the exceptions, see the covenant entitled “Limitation on Restricted Payments” and the definition of “Permitted Investments” in “*Description of the 2018 Notes*” and “*Description of the 2020 Notes — Definitions*”. We cannot assure you that such non-controlling investments will contribute to our income or cash flow and we may suffer partial or complete loss with respect to such investments.

RISK FACTORS

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

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our total bank and other borrowings, including both current and non-current portions, at December 31, 2011, 2012 and 2013 was RMB16,743 million, RMB18,803 million and RMB24,366 million (US\$4,025 million), respectively. During the three months ended March 31, 2014, the Group repaid a total of RMB2,130 million of its bank and other borrowings and incurred a total of RMB3,162 million of additional bank borrowings. The aggregate amount outstanding on debt securities issued was RMB10,725 million as of December 31, 2013. In July 2013, Shui On Land repurchased and cancelled a portion of the Convertible Bonds with an aggregate principal amount of RMB80 million and redeemed further bonds on September 2013 following the exercise by certain bondholders of their rights under the Put Option of the Convertible Bonds in the aggregate principal amount of RMB2,206.5 million. In addition, although our existing financing instruments contain, and the indenture governing the Notes will contain, restrictions on our ability and the ability of our subsidiaries to incur additional indebtedness, these restrictions are subject to a number of important qualifications and exceptions and we and our subsidiaries may incur substantial additional indebtedness in the future.

Our substantial indebtedness and incurrence of substantial indebtedness in the future could have sufficient consequences to our business and to holders of the Notes, including:

- making it more difficult for us to satisfy our obligations under the Notes and our other indebtedness;
- increasing our vulnerability to adverse general economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payment on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in our businesses and the industry in which we operate;
- placing us at a competitive disadvantage compared to our competitors that have less debt;
- limiting our ability to obtain additional financing; and
- increasing the cost of additional financing.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. There can be no assurance that we will be able to generate sufficient cash flow to meet our anticipated operating expenses or to service our debt obligations as they become due. For the years ended December 31, 2011, 2012 and 2013, our net cash flow from operating activities was an inflow of RMB528 million, an outflow of RMB2,185 million and an inflow of RMB1,826 million (US\$302 million), respectively. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing existing indebtedness or seeking equity capital. These strategies, if implemented, may not be instituted on satisfactory terms.

In addition, our existing financing arrangements as well as the indenture governing the Notes impose operating and financial restrictions on our business (including, under several existing bank loan agreements of the Issuer, the Parent Guarantor and our subsidiaries, the maintenance of certain financial ratios). Our ability to meet such financial ratios may be affected by events beyond our control. There can be no assurance that we will be able to meet these ratios. These provisions 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 necessary capital expenditures, or withstand a continuing or future downturn in our business. Any of these constraints upon us could materially and adversely affect our ability to satisfy our obligations under the Notes.

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

From time to time the Group has been required to seek amendments, waivers and consents in connection with financial and other covenants under the Group's debt facilities and outstanding securities. To facilitate the Brookfield Investment and the Proposed China Xintiandi Spin-off, the Issuer sought and obtained consents from the holders of the 7.625% Senior Notes, 9.75% Senior Notes to amend the indenture and sought and obtained approval from the holders of the 10.125% Perpetual Capital Securities to amend the terms and conditions and trust deed in December 2013. Additionally, Shui On Singapore sought and obtained consents from holders of the 8% Senior Notes to amend the indenture in December 2013. See "Summary — Proposed spin-off of China Xintiandi and Brookfield Investment". Under certain loan agreements we were required to seek consents from our lenders to proceed with the Group Restructuring and we have obtained the required consents. Such amendments, waivers and consents have all been granted by the applicable creditors and security holders and such incidents have not caused any material adverse impact on our operations and financial condition. There is no assurance that we will not need to seek such amendments, waivers or consents in the future.

If we or the Issuer are unable to comply with the restrictions and covenants in the Notes, the indenture governing the Notes or our current or future financing and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the relevant debt could terminate their commitments to lend to us, accelerate the debt obligation and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, certain debt agreements, including the Notes, may contain cross-acceleration or cross-default provisions. As a result, 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 other debt agreements, including the indenture. If any of these events should occur, there can be no assurance that our assets and cash flow would be sufficient to repay in full all indebtedness, or that alternative financing could be found. Even if alternative financing can be obtained, there can be no assurance that it would be on terms that are favorable or acceptable to us.

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

The Notes and the indenture governing the Notes contain a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

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

These covenants, which are subject to a number of important qualifications and exceptions described in “*Description of the 2018 Notes — Certain Covenants*” and “*Description of the 2020 Notes — Certain Covenants*”, could limit our ability to plan for or react to varying 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.

The Issuer and the Parent Guarantor may be unable to repurchase the Notes upon a Change of Control.

Not later than 30 days following a Change of Control (as defined in the “*Description of the 2018 Notes*” and “*Description of the 2020 Notes*”), the Issuer or the Parent Guarantor must 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, up to, but not including, the repurchase date. See “*Description of the 2018 Notes — Repurchase of Notes Upon a Change of Control*” and “*Description of the 2020 Notes — Repurchase of Note Upon a Change of Control*”. The source of funds for any such purchase would be the Issuer’s or the Parent Guarantor’s available cash or third-party financing. However, the Issuer and the Parent Guarantor may not have enough available funds at the time of the occurrence of any Change of Control to make purchases of tendered outstanding Notes. A failure by the Issuer and the Parent Guarantor to make the offer to purchase or purchase tendered Notes would constitute an Event of Default (as defined in the “*Description of the Notes*” and “*Description of the 2020 Notes — Definitions*”) under the Notes. This Event of Default may, in turn, constitute an event of default under

other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If the other debt of the Issuer or the Parent Guarantor were to be accelerated, the Issuer and the Parent Guarantor may not have sufficient funds to purchase the Notes and repay the debt.

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

There may not be an active trading market for the Notes, and the trading price of the Notes could be materially and adversely affected.

Approval in-principle has been received for the listing of the Notes on the SGX-ST. However, there can be no assurance that we will be able to obtain or maintain such listing or that, if listed, that there will be an active trading market for the Notes. If there is no active trading market, you may not be able to resell your Notes at their fair market value or at all. Trading prices of the Notes will depend on many factors, including prevailing interest rates, our operating results and the market for similar securities. We have been advised that the Joint Lead Managers intend to continue to make a market in the Notes, but the Joint Lead Managers are not obligated to do so and may discontinue such market making activity at any time without notice. Therefore there can be no assurance that there will be an active trading market for the Notes. If there is no active trading market for the Notes, the market price and liquidity of the Notes may be adversely affected.

In addition, the Notes may trade at prices that are higher or lower than the price at which the Notes have been issued. The price at which the Notes trade depends on many factors, including:

- prevailing interest rates and interest rate volatility;
- our results of operations, financial condition and future prospects;
- changes in our industry and competition;
- the market conditions for similar securities; and
- general economic conditions, almost all of which are beyond our control.

As a result, there can be no assurance that you will be able to resell the Notes at an attractive price or at all.

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

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our turnover, earnings and cash flows and proposals for new investments, strategic alliances and/or

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acquisitions, interest rates, currency exchange 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 the volume and price at which the Notes will trade. There can be no assurance that these developments will not occur in the future.

No credit rating agencies have assigned ratings to the Notes.

The Notes have not been assigned ratings by any rating agencies, and we have not requested any rating agencies to assign ratings to the Notes. Ratings assigned by rating agencies represent such rating agencies' assessment of our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. We currently have no plans to obtain ratings on the Notes from any credit rating agencies. If we in the future obtain ratings on the Notes from any rating agencies, such ratings (and any subsequent revision, downgrade or withdrawal of such ratings) may adversely affect the market price of the Notes and our ability to access the debt capital markets in the future that in turn may have a material adverse effect on our financial condition and results of operations.

Under PRC regulations, we may not be able to transfer to our PRC subsidiaries, proceeds of this Notes offering in the form of loans, which could impair our ability to make timely payments of interest, or even the principal, under the Notes.

According to the existing PRC rules and regulations relating to supervision of foreign debt, loans by foreign companies to their subsidiaries in China, such as our PRC subsidiaries established as foreign-invested enterprises in China, are considered foreign debt, and such loans must be registered with the relevant local branches of SAFE. Such rules and regulations also provide that the total outstanding amount of such foreign debt borrowed by any foreign-invested enterprise may not exceed the difference between its total investment and its registered capital, each as approved by the relevant PRC authorities. In addition, in July 2007, SAFE issued a circular indicating that it would not process any foreign debt registration or conversion of foreign debt for foreign-invested enterprises in the real estate sector that was approved by the local office of MOFCOM, and registered with MOFCOM after June 1, 2007. Foreign invested-enterprises include joint ventures and wholly foreign owned enterprises established in China, such as most of our PRC subsidiaries. Without having the flexibility to transfer funds to our PRC subsidiaries as loans, there can be no assurance that the dividend payments from our PRC subsidiaries will be available on each interest payment date to pay the interest due and payable under the Notes, or on the maturity date to pay the principal of the outstanding Notes.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from those of other jurisdictions with which the holders of the Notes are familiar.

Because the Issuer and the Parent Guarantor are incorporated under the laws of the Cayman Islands, any insolvency proceeding relating to the Issuer or the Parent Guarantor may involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar. In addition, almost all of our subsidiaries holding equity interests in our PRC subsidiaries are incorporated in the British Virgin Islands or Hong Kong, and the insolvency laws of the British Virgin Islands and Hong Kong also may differ from the laws of other jurisdictions with which the holders of the Notes are familiar.

We conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. Our PRC subsidiaries are subject to the bankruptcy and insolvency laws of China. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties carefully before you invest in our Notes.

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

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

There may be less publicly available information about us than is available for public companies in certain other jurisdictions.

The Parent Guarantor, which owns all of the issued equity interest in the Issuer, is a company listed on the Hong Kong Stock Exchange. There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other jurisdictions. In addition, our financial statements are prepared and presented in accordance with IFRS, which differ in certain significant respects from generally accepted accounting principles or other accounting standards in other jurisdictions, which might be material to the financial information contained in this Offering Memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between IFRS and generally accepted accounting principles or other accounting standards in other jurisdictions. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisors for an understanding of the differences between IFRS and generally accepted accounting principles and other accounting standards in other jurisdictions and how those differences might affect the financial information contained in this Offering Memorandum.

Certain facts, forecasts and statistics are derived from publications not independently verified by us, the Joint Lead Managers or our or their respective advisors.

Facts and other statistics in this Offering Memorandum relating to China's economy and the real estate industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts, forecasts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Joint Lead Managers or our or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

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

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global note representing the Notes will trade in book-entry form only, and notes in definitive registered form 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 for purposes of the indenture governing the Notes. The common depositary for Euroclear and Clearstream will be the sole registered holder of the global note. Accordingly, you must rely on the procedures of Euroclear or Clearstream, and if you are not a participant in Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the indenture. Upon the occurrence of an event of default

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under the indenture, unless and until definitive registered notes are issued with respect to 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. See “*Description of the 2018 Notes — Book-Entry; Delivery and Form*” and “*Description of the 2020 Notes — Definitions*”.

The Parent Guarantee, and any guarantee by our subsidiaries of the Notes after the issue date, may be challenged under applicable insolvency or fraudulent transfer laws which may affect the enforceability of such guarantees.

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in the Cayman Islands, where the Parent Guarantor is established, and in the British Virgin Islands, Hong Kong and other jurisdictions where our current and future subsidiaries may be established, a guarantee could be voided, or claims with respect to 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 the reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor’s remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, any debt beyond its ability to pay as it matures.

The measure of insolvency for the 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 was unable to pay its debts as they became due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such a 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 Parent Guarantor under the Parent Guarantee will be limited to the maximum amount that can be guaranteed by the Parent Guarantor without rendering the Parent Guarantee, as it relates to such Parent Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voided the Parent Guarantee, subordinated the Parent Guarantee to other indebtedness of the Parent Guarantor, or held the Parent Guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against the Parent Guarantor based upon the Parent Guarantee, would be subject to the prior payment of all liabilities (including trade payables) of the Parent Guarantor, and would solely be creditors of the Issuer (and any subsidiary of the Issuer that may be required to guarantee the Notes after the issue date, but only to the extent such subsidiary guarantee was not similarly voided, subordinated or held unenforceable). There can be no assurance that, in such an event and after providing for all prior claims, there would be sufficient assets to satisfy the claims of holders of the Notes.

USE OF PROCEEDS

We intend to apply the net cash proceeds from the issuance of the Notes, after deducting fees, commissions and expenses related to the issuance of the Notes, to (i) pay the cash portion of the considerations payable under the Concurrent USD Exchange Offer and the Concurrent RMB Exchange and Tender Offer (including without limitation, any premium, accrued interests or fractional amounts); (ii) pay any other consideration or expenses in connection with the Concurrent USD Exchange Offer and the Concurrent RMB Exchange and Tender Offer; and (iii) if there is any remainder, pay for repay existing indebtedness with near term maturities and fund the capital expenditures related to the Group's real estate or equipment.

EXCHANGE RATE INFORMATION

The PBOC sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the previous day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars, Singapore dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PBOC has enlarged the floating band several times since then to increase the Chinese currency's exchange rate flexibility. The PRC government may, in the future, make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against Renminbi on the following working day.

The following table sets forth, for each of the periods indicated, the low, average, high and period-end noon buying rates in New York City for cable transfers, in RMB per U.S. dollar. The exchange rates reflect those set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States.

Year	Noon Buying Rate			
	Low	Average ⁽¹⁾	High	Period End
	<i>(RMB per US\$)</i>			
2009	6.8176	6.8307	6.8470	6.8259
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012	6.2221	6.3093	6.3879	6.2301
2013				
September	6.1178	6.1213	6.1198	6.1200
October	6.0815	6.1032	6.1209	6.0943
November	6.0903	6.0929	6.0993	6.0922
December	6.0537	6.0738	6.0927	6.0537
2014				
January	6.0402	6.0509	6.0600	6.0590
February	6.0591	6.0816	6.1448	6.1448
March	6.1183	6.1729	6.2273	6.2164
April (up to April 4)	6.2054	6.2085	6.2118	6.2118

Source: Federal Reserve H.10 Statistical Release

(1) Annual and monthly averages are calculated using the average of the daily rates during the relevant period.

On December 31, 2013, the U.S. dollar/Renminbi exchange rate was US\$1.00 to RMB6.0537.

CAPITALIZATION

The following table sets forth our borrowings and capitalization as of December 31, 2013 (derived from our audited consolidated financial statements as of December 31, 2013) on an actual basis, on an “as adjusted” basis and on an “as further adjusted” basis.

The “as adjusted” data set forth below gives effect to (i) the bank borrowings drawn down during the three months ended March 31, 2014 (net of repayment of bank and other borrowings for the same period) and (ii) the issuance of the 2017 Senior Notes on February 26, 2014.

The “as further adjusted” data set forth below gives effect to the Notes contemplated to be issued (but before deducting fees and other expenses payable in connection with the offering). For the avoidance of doubt, the “as further adjusted” data set forth below does not give effect to the Concurrent USD Exchange Offer, the Concurrent RMB Exchange and Tender Offer and issue of any Exchange Notes.

Except as otherwise disclosed herein and other than the drawdown and repayment of bank and other borrowings in the normal course of business, there has been no material change in our borrowings and capitalization since December 31, 2013. See “*Description of Other Material Indebtedness*” for information on our outstanding borrowings.

	As of December 31, 2013 ⁽¹⁾					
	Actual		As Adjusted		As Further Adjusted	
	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Total bank balance and cash						
Pledged bank deposits						
— non-current	2,747	454	2,747	454	2,747	454
Pledged bank deposits — current . .	824	136	824	136	824	136
Restricted bank deposits	1,231	203	1,231	203	1,231	203
Bank balances and cash ⁽²⁾⁽³⁾	5,378	888	8,910	1,472	10,520	1,738
Total bank balance and cash	10,180	1,681	13,712	2,265	15,322	2,531
Total borrowings — current portion						
Bank and other borrowings — due						
within one year	6,315	1,043	4,685	774	4,685	774
Total borrowings — current portion .	6,315	1,043	4,685	774	4,685	774

	As of December 31, 2013 ⁽¹⁾					
	Actual		As Adjusted		As Further Adjusted	
	(RMB in millions)	(US\$ in millions)	(RMB in millions)	(US\$ in millions)	(RMB in millions)	(US\$ in millions)
Total borrowings — non-current portion						
Bank and other borrowings — due after one year	18,051	2,982	20,713	3,422	20,713	3,422
Convertible Bonds due 2015 ⁽⁴⁾	395	65	395	65	395	65
7.625% Senior Notes due 2015 ⁽³⁾	3,591	593	3,591	593	3,591	593
8% Senior Notes due 2015	1,238	204	1,238	204	1,238	204
9.75% Senior Notes due 2015 ⁽³⁾	5,501	909	5,501	909	5,501	909
6.875% Senior Notes due 2017	—	—	2,500	413	2,500	413
New 2018 Notes to be issued ⁽³⁾	—	—	—	—	1,083	179
New 2020 Notes to be issued ⁽³⁾	—	—	—	—	527	87
Total borrowings — non-current portion	28,776	4,753	33,938	5,606	35,548	5,872
Total borrowings⁽²⁾	35,091	5,796	38,623	6,380	40,233	6,646
Capital and reserves attributable to equity shareholders of the Company						
Issued capital ⁽⁴⁾	145	24	145	24	145	24
Share premium	18,020	2,977	18,020	2,977	18,020	2,977
Other reserves	854	141	854	141	854	141
Retained earnings	17,136	2,831	17,136	2,831	17,136	2,831
Perpetual capital securities	3,094	511	3,094	511	3,094	511
Non-controlling interests	2,925	483	2,925	483	2,925	483
Total equity	42,174	6,967	42,174	6,967	42,174	6,967
Total Capitalization⁽⁵⁾	70,950	11,720	76,112	12,573	77,722	12,839

Notes:

- (1) All items in this table have been translated from Renminbi to U.S. dollars at the rate of RMB6.0537 to US\$1.00 (except for all amounts relating to the 8% Senior Notes due 2015, which have been translated from Singapore dollar to Renminbi at the rate of S\$1 to RMB4.7939 and the New 2018 Notes and New 2020 Notes to be issued, which have been translated from U.S. dollar to Renminbi at the rate of US\$1 to RMB0.1652).
- (2) During the three months ended March 31, 2014, the Group repaid a total of RMB2,130 million of its bank and other borrowings and incurred a total of RMB3,162 million of additional bank borrowings.
- (3) No adjustment has been made to give effect to the Concurrent USD Exchange Offer, the Concurrent RMB Exchange and Tender Offer and issue of any Exchange Notes.
- (4) If all the outstanding Convertible Bonds due 2015 were converted at the conversion price of HK\$3.88 per share, up to 127,804,291 shares would be issuable upon conversion.
- (5) Total capitalization represents the sum of the non-current portion of total borrowings and total equity.

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

The following is a discussion of our financial condition and results of operations as of and for the years ended December 31, 2011, 2012 and 2013 and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our financial statements included in this Offering Memorandum beginning on page F-3. Our financial statements have been prepared in accordance with IFRS.

In addition, the following discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Offering Memorandum, including "Risk Factors".

OVERVIEW

We are one of the leading property developers in the PRC and the flagship property company of the Shui On Group. We engage principally in the development, sale, leasing, management and the long-term ownership of high-quality residential, office, retail, entertainment and cultural properties in the PRC. We have expertise and experience in developing large-scale integrated property projects based on master plans that we have developed in conjunction with local governments. As of December 31, 2013, we have eight major multi-phase projects in various stages of completion located in the cities of Shanghai, Wuhan, Chongqing, Foshan and Dalian in the PRC. Our landbank currently stands at approximately 12.5 million sq.m. with an aggregate estimated leasable and saleable GFA of approximately 10.3 million sq.m. (of which approximately 7.5 million sq.m. is attributable to us) and approximately 2.2 million sq.m. of car parks and other public facilities.

We are actively involved in the city planning aspects of our projects. We believe our projects are characterized by the redevelopment and transformation of the neighborhoods and communities of the cities in which they are located. We strategically retain long-term ownership of certain commercial properties that we have developed, and are committed to enhancing the value of the projects on a continuing basis through comprehensive property management. Our past developments include the well-known restoration project, Shanghai Xintiandi, one of the landmarks in Shanghai.

We focus on large-scale city-core development projects, primarily strategically-located, mixed-use properties and multi-phase developments with a blend of historic restoration and modern architecture. All of our projects manifest the "Total Community" concept. Endowed with a full range of modern facilities for residential, office, retail, entertainment and leisure, our projects provide a unique environment enabling a "Live-Work-Play" lifestyle. Our aim is to make each of these projects a focal point for the entire city in which it is located.

We trace our origins to the Shui On Group, a Hong Kong-based privately-held diversified group that is primarily engaged in real estate development, construction contracting and the construction materials businesses. Under the leadership of our chairman, Mr. Lo, the Shui On Group has over 20 years of experience in property development in mainland China and over 40 years of property related experience in Hong Kong.

As of December 31, 2013, our eight major multi-phase projects are as follows:

Shanghai area:

- the Shanghai Taipingqiao project;
- the Shanghai Rui Hong Xin Cheng project;

- the Shanghai KIC project;
- THE HUB;

Wuhan area:

- the Wuhan Tiandi project;

Chongqing area:

- the Chongqing Tiandi project;

Foshan area:

- the Foshan Lingnan Tiandi project; and

Dalian area:

- the Dalian Tiandi project.

The projects described above are multi-phase projects at various stages of development. While none of these projects have been completed in their entirety, certain developments within these multi-phase projects have been completed.

For the years ended December 31, 2011, 2012 and 2013, we derived approximately 89.4%, 73.4% and 85.1%, respectively, of our income from property sales (specifically, sales at Shanghai Taipingqiao, Shanghai Rui Hong Xin Cheng, Shanghai KIC, Wuhan Tiandi, Chongqing Tiandi and Foshan Lingnan Tiandi) and approximately 10.6%, 26.6% and 14.9%, respectively, of our income from rental and related income and others.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following are the key factors driving our results of operations and financial condition:

China's economic conditions

Our results of operations and financial conditions are significantly affected by China's economic conditions and the economic measures taken by the PRC government. China has experienced rapid economic growth over the past three decades largely as a result of the PRC government's extensive economic reforms, which have focused on transforming China's centrally planned economy into a more market-based economy. The real growth of China's overall economy ranged from 9.1% to 14.2% annually between 2002 and 2007, according to the National Bureau of Statistics of China. Since the second half of 2008, the global economic slowdown has had an adverse impact on the overall Chinese economy, including the PRC real estate market, from which a significant portion of our turnover was generated. The growth of the PRC economy has been decelerating and it is expected that the medium term growth of the PRC economy will be slower than in recent decades. The economic conditions and volatility of property prices in China may continue to have an impact on our business and results of operations.

The type and size of our completed properties

We typically sell units in our residential properties to individual buyers and retain our office, retail, serviced apartments, entertainment and cultural properties for rental and other related income.

Consequently, our operations and cash flows expenditure may vary significantly from period to period depending on the type and size of our properties that have been completed and become available for sale or rental, as well as the mixture of such sales and rental properties, during any given period. Our results of operations and cash flows may also vary depending on the local market demand at the time we sell or rent our completed properties, the rental and occupancy rates of our investment properties and the selling prices for units in our residential properties. Historically, periods in which we had a larger proportion of completed residential properties to be sold to individual buyers generated greater turnover and cash flows than periods in which we had a larger proportion of completed office, retail, serviced apartments, entertainment and cultural properties, which we typically retain as investment properties and lease to tenants. The GFA of properties we sell or lease depends on the progress we make on the development and construction of our projects. As our projects are multi-phase projects, completion of the various phases typically takes place throughout the life of the projects.

Ability to acquire and cost of acquiring suitable land

Our ability to acquire land use rights at reasonable costs is vital to our profit and sustainable growth. That ability depends substantially on the relevant land supply policies of the PRC government, as well as general market conditions, at any given time. In July 2002, the PRC government introduced regulations requiring government departments and agencies to grant state-owned land use rights for residential or commercial property development through competitive processes, including public or private tenders, public auctions or listing at land exchanges administered by local governments. These competitive processes, together with the continuing growth of the PRC economy, have significantly intensified competition among real estate developers for any available land, and thereby increased our acquisition costs for land. This competition may continue to intensify as major Chinese cities, such as Shanghai, have experienced rapid land price increases in recent years, while there is a limited and declining supply of large plots of land available for development in these cities. As a result, we may not be able to acquire large plots of land in urban locations at affordable prices in the future. Future changes in PRC governmental policies, as well as general economic conditions in the PRC, may have a significant effect on our business, results of operations and cash flows.

Construction costs

Construction costs comprise one of the major components of our cost of sales. In recent years, land premiums have generally increased in China, and we expect that land premiums will continue to rise as the PRC economy continues to develop. Key construction materials such as steel and cement are included in the fees payable to our construction contractors. Fluctuations in the price of construction materials, such as steel and cement, may cause contractors to revise their initial fee quote, which may have an impact on our cost of sales and overall project costs. If we are unable to sell our properties at a price that covers the increased costs, we may not achieve our target profit margin and our profitability may be adversely impacted.

Valuation of our investment properties

Our investment properties are properties held to earn rental income and/or capital appreciation. Our investment properties are stated at their fair value on our consolidated financial statements as non-current assets as of each of the reporting dates on the basis of valuations by a qualified independent appraiser. Gains or losses arising from changes in the fair value of our investment properties are accounted for as increases or decreases in fair value of investment properties in our consolidated statement of profit or loss, which may have a substantial effect on our profit. From January 1, 2009, investment properties under construction or development have been accounted for in the same way as completed investment properties. In the circumstances where the fair value of an investment property under construction or development is not reliably determinable but the fair value

of the property is expected to be reliably determinable once construction is complete, such investment property under construction or development is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is the earlier. For the years ended December 31, 2011, 2012 and 2013, our investment properties were revalued upwards by RMB2,696 million, RMB2,698 million and RMB2,912 million (US\$481 million), respectively, which included both completed properties and properties under construction or development. See “— *Basis of Preparation*”. Property valuation involves the exercise of professional judgment and requires the use of certain bases and assumptions. The bases and assumptions which an appraiser uses for the valuation typically include references to values realized in comparable precedent transactions in the market for properties of similar size, characteristics of the relevant property and location. The fair value of our investment properties may have been higher or lower if the appraiser had used a different set of bases or assumptions or if the valuation had been conducted by other qualified independent professional appraisers using a different set of bases and assumptions. In addition, upward revaluation adjustments reflect only unrealized capital gains on our investment properties at the relevant reporting dates, and do not generate any additional cash flows to us until such investment properties are disposed of at similarly revalued amounts. The amounts of revaluation adjustments have been, and may continue to be, significantly affected by the prevailing property markets and their value may rise as well as fall. There can be no assurance that we will continue to record similar levels or pace of increase in fair value of investment properties in the future.

Sales of interests in projects

We have historically sought out, and intend to continue to seek out, opportunities to enter into strategic partnerships with investors to sell our interests in selected parcels of land, and/or to co-develop some lots of our projects with a view to potentially accelerating our development schedules and allowing us to undertake more new projects. For example, since 2006 we have sold non-controlling interests in a number of our projects, including Chongqing Tiandi, Wuhan Tiandi, Shanghai Rui Hong Xin Cheng, Shanghai Taipingqiao project, Foshan Lingnan Tiandi Lot 18, Lots 6 and 16 projects and our Chongqing Super High Rise properties to strategic investors that we believe would be beneficial to our development of those projects. The proceeds of approximately RMB5,376 million that we received from such sales of non-controlling interests were used primarily to finance land acquisitions and project development costs for our other projects. In the future, our results may be affected by any such transactions, depending on the terms of sale and the cost of the asset or interest disposed.

PRC government control and policies

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

- land acquisition;
- property sales;
- the availability of mortgage financing;
- sales or other transfers of land use rights and completed properties;
- taxes;

- planning and zoning; and
- building design and construction.

In the past few years, the PRC government has instituted various measures to both discourage speculation in the residential property market and increase housing supply. These policies have affected market conditions in the local markets in which we operate, including with respect to price stability and the balance of supply and demand of residential properties. We are also highly susceptible to any regulations or measures adopted by the PBOC that may restrict bank lending to enterprises, particularly to real estate developers. Moreover, a portion of our purchasers depend on mortgage financing to purchase our properties. Regulations or measures adopted by the PRC government that are intended to restrict the ability of purchasers to obtain mortgages or increase the costs of mortgage financing may decrease market demand for our properties and adversely affect our turnover from sales. See “*Regulation*” for a description of these policies.

Availability and cost of funds

We finance our property developments primarily through internally generated funds (including proceeds from sales and pre-sales of properties and rental income from our investment properties), sales of interests in our development projects to strategic investors, bank borrowings and other debt and capital financing. As of December 31, 2011, 2012 and 2013, our outstanding bank and other borrowings were RMB16,743 million, RMB18,803 million and RMB24,366 million (US\$4,025 million), respectively.

On September 29, 2010, we issued RMB denominated US\$ settled 4.5% Convertible Bonds due 2015 in an initial aggregate principal amount of RMB2,720 million (the “**Convertible Bonds**”). On December 23, 2010, January 26, 2011 and January 26, 2012, we issued the 6.875% Senior Notes (repaid in full in December 2013), the 7.625% Senior Notes and the 8% Senior Notes, respectively. On February 16, 2012, February 29, 2012 and August 6, 2012), we issued the 9.75% Senior Notes. On February 26, 2014, we issued the 2017 Senior Notes. Most of our borrowings are denominated in Renminbi, H.K. dollars or U.S. dollars, and other than the Convertible Bonds, the 6.875% Senior Notes, the 7.625% Senior Notes, the 8% Senior Notes, the 9.75% Senior Notes and the 2017 Senior Notes, most of our borrowings have floating interest rates based on PBOC, HIBOR or LIBOR benchmark rates. Any increase in these rates will result in an increase in our borrowing costs. Furthermore, any increase in interest rates may restrict our purchasers from being able to finance their transactions with us and thus adversely affect our turnover from sales.

RECENT DEVELOPMENTS

Mr. Freddy C.K. LEE resigned as an Executive Director, the Chief Executive Officer and a Managing Director of Shui On Land and Mr. Philip K.T. WONG was appointed as an Executive Director and a Managing Director of Shui On Land, both with effect from January 10, 2014.

During the three months ended March 31, 2014, the Group repaid a total of RMB2,130 million of its bank and other borrowings and incurred a total of RMB3,162 million of additional bank borrowings. On February 26, 2014, the Group issued RMB2,500 million in 6.875% senior notes due 2017.

CURRENT TRADING AND PROSPECTS

Since December 31, 2013, the PRC government has implemented further macroeconomic controls on the real estate property market in the PRC, including imposing restrictions on the number of properties

which can be owned by families, which may adversely impact on the demand for our properties. See “*Risk Factors*” and “*Regulation*” for further details. Nevertheless, we do not expect our performance will be materially adversely affected by these policies.

BASIS OF PREPARATION

The consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“**IASB**”), in effect at the time of the preparation of the consolidated financial statements. The consolidated financial statements include the accounts of the Group’s subsidiaries from the date that control effectively commenced until the date that control effectively ceased. The list of the Group’s principal subsidiaries with effective ownership interest as of December 31, 2011, 2012 and 2013 is included in the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our consolidated financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. We have summarized below our accounting policies that we believe are both important to the portrayal of our financial results and involve the need to make estimates about the effect of matters that are inherently uncertain.

Valuation of our investment properties

As described above, our investment properties are stated in our consolidated financial statements at fair value based on the valuation performed by qualified independent professional appraisers. In determining the fair value, the appraisers have adopted a method of valuation which involves certain estimates of market conditions. In relying on the valuation report provided by these appraisers, our directors have exercised their judgment and are satisfied that the method of valuation is reflective of current market conditions. Changes to these assumptions would result in changes in the fair values of our investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss. Gains or losses upon disposal of investment properties (calculated as the difference between the net proceeds from such disposal and the fair value of the relevant investment properties reflected in our statement of financial position) would be included in our consolidated statement of profit or loss at the time of such disposal.

Revenue recognition

Our revenue is composed primarily of turnover generated from the sales of our property development (representing proceeds from sales of our properties), turnover from property investment activities (representing rental and related income from operating leases, income from hotel operations, property management fee income, sales of goods), management service fee income and interest income from financial assets. Turnover from properties developed for sale in the ordinary course of business is recognized upon delivery of properties to the purchasers pursuant to the sales agreements, which can only occur after completion of the properties. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Income from hotel operations is recognized when the relevant services are provided. Property management fee income, management service fee income are recognized over the relevant period in which the services are rendered and interest income from financial assets is accrued on a time basis. Turnover from sales of goods is recognized upon delivery of goods to customers and represents the amounts receivable for goods sold, net of discounts and sales related taxes.

Properties under development

Certain investment properties under construction or development are measured at fair value at the end of each reporting period. Construction costs incurred for investment properties under construction or development are capitalized as part of the carrying amount of the investment properties under construction or development. Any difference between the fair value of the investment properties under construction or development and their carrying amounts is recognized in the consolidated statement of profit or loss in the period in which they arise. In circumstances where the fair values of investment properties under construction or development are not reliably determinable, such investment properties under construction or development are measured at cost less impairment, if any, until such time as their fair values become reliably determinable, which occurs upon finalisation of the development plan, at which time the land and relocation cost and construction costs attributable to the investment property portion is reliably determinable.

Properties under development which are intended to be held for sale are carried at the lower of cost and net realizable value and are shown as current assets. Cost includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalized during the construction period. Net realizable value is determined by reference to prevailing market conditions, including the prices of what we consider to be closely comparable properties, and other factors that may have effects on the prices of our properties, less applicable variable selling expenses and the anticipated costs to completion.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. As of December 31, 2013, our principal associates were our Dalian Entities.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. As of December 31, 2013, our principal joint venture was Shanghai Yong Lin Investment Management Limited.

The results and assets and liabilities of associates and joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. When the Group's share of losses of an associate or a joint venture exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, forms part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of profit or loss.

Where a group entity transacts with an associate or a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate or joint venture.

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, after deducting any investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets. Such capitalization of borrowing costs ceases when the relevant assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

Property, plant and equipment

Property, plant and equipment, other than hotels under development, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation of the cost of land and buildings and hotel properties is calculated using the straight-line method over the estimated useful life of 50 years or, where shorter, the remaining leasehold term. Depreciation of the costs of property, plant and equipment other than land and buildings and hotel properties is calculated using the straight-line method over the estimated useful life of such assets of three to five years and after taking into account their estimated residual value.

Hotels under development held for owner's operation are stated at cost less subsequent accumulated impairment losses, if any. Cost comprises development expenditure including professional charges directly attributable to the development and borrowing cost capitalised during the development period. No depreciation is provided on the cost of hotels under development until hotels commence operation.

LAT

The Group is subject to LAT in the PRC. However, the implementation and settlement of the tax varies among different tax jurisdictions in various cities of the PRC. The Group has cleared LAT for certain projects sold prior to year 2009 with the final settlement approximated to our LAT provision. However, for most of the projects sold during the years ended December 31, 2011, 2012 and 2013, the Group has not finalized those LAT calculations and has not made payments to the local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of LAT and its related income tax provisions. The Group recognized LAT and made full provisions based on management's best estimates according to the PRC regulations. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax provisions in the periods in which such tax is finalized with local tax authorities. See "*Description of Selected Income Statement Items — Taxation*".

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where we are 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 and interest 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. At each reporting date, our directors consider a number of factors including the relevant profit projections, and, taking

into account these factors, estimate the realizability of the tax losses based on their best knowledge of our profit projections for the relevant period. 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.

DESCRIPTION OF SELECTED ITEMS OF STATEMENT OF PROFIT OR LOSS

Turnover

Our turnover consists of income derived from property development, property investment and to a lesser extent, other sources of income, all of which are described below in more detail.

Property development

Turnover from property development principally represents sales of our residential units. We present turnover from property development net of PRC business tax at the rate of 5% and other surcharges/taxes. Payments received from purchasers prior to the delivery date are recorded as deposits received and are presented as current liabilities in our consolidated statement of financial position.

Property investment

Turnover from property investment principally represents income from property letting, property management, hotel operations and other related income. As of the date of this Offering Memorandum we derived property investment income from Shanghai Xintiandi, Shanghai Xintiandi Style, Shanghai Shui On Plaza, Shanghai Langham Xintiandi Hotel, 1&2 Shanghai Corporate Avenue, Shanghai Rui Hong Xin Cheng Phases 1-4 commercial portion, Shanghai KIC (Plaza and Village), Hangzhou Xihu Tiandi, Wuhan Tiandi, Chongqing Tiandi and commercial portion of The Riviera, Foshan Lingnan Tiandi and Marco Polo Lingnan Tiandi Foshan Hotel.

Others

Other turnover comprises primarily operating income from food and beverage outlets and management service fee income.

Cost of sales

Cost of sales primarily represents the costs we incur directly for our property development and property investment activities, all of which are described in more detail below.

Property development

Cost of sales directly related to our property development activities includes land costs (primarily land grant fees and residents relocation costs), construction costs and capitalized interest on borrowings related to property development activities.

Land grant fees, which are determined by public auctions or by relevant government authorities, with input from independent property appraisers, are payments to the relevant land bureau or the relevant provincial or local government for the right to occupy, use and develop a particular parcel of land and to market the units or other projects developed on such land.

The relocation costs we pay include the actual expenses we incur for site clearance and relocation of the residents residing on the site. Municipal governments, including the Shanghai local government, have established certain basic principles for determining the appropriate level of compensation to be paid to the existing residents.

Construction costs encompass all raw material costs and costs for the design, professional fees and construction of a project, including costs for construction of infrastructure and communal facilities. Professional fees include fees we pay to architects and design consultants for our property developments. All costs relating to construction are capitalized.

We capitalize a portion of our interest expense to the extent that such costs are directly attributable to the costs of acquisition, construction or development of the properties. The capitalization commences when the development of properties starts, which is when the relevant expenditure or finance cost is incurred and ceases when the development is in abeyance or the construction work is completed. After completion, the relevant interest is expensed in our consolidated statement of profit or loss as finance costs.

Property Investment

Cost of sales directly related to our property investment activities includes direct expenses incurred for property investment activities and hotel operations such as property tax, property management fees, agency commissions, utilities and costs of food and beverages for hotel guests.

Gross profit

Gross profit represents turnover less cost of sales. Our gross profit margin, therefore, depends upon a combination of factors, including the volume and price at which we sell properties, land grant fees, relocations costs and construction costs.

Other income

Other income consists primarily of interest income, grants received from local governments, gain on acquisition or disposal of subsidiaries, gain on disposal of investment properties and certain non-recurring income.

Selling and marketing expenses

Selling and marketing expenses relate to the salaries, benefits, other compensation and fees and advertisement expenses incurred for promoting the sales and leasing of our properties.

General and administrative expenses

General and administrative expenses include staff costs for administrative purposes and other staff at our headquarters, professional fees paid to legal, audit and other professional advisors and fees paid to architects and designers in connection with feasibility studies prepared in relation to potential development projects, rental charges under operating leases, depreciation, utility charges and property taxes. We expect our general and administrative expenses will continue to increase as we develop additional projects and expand our operations.

Increase in fair value of investment properties

In accordance with IFRS, we engage a qualified independent property appraiser to conduct market valuations of our office, retail, entertainment and cultural properties held as investment properties at the end of each reporting period. Increases or decreases in the fair market value of our investment properties are reflected as an income or expense item, as the case may be, in the consolidated statement of profit or loss.

Share of results of associates

Share of results of associates principally represents our share of net profit or loss of the Dalian Tiandi project, which is developed and managed by certain associate companies of the Group.

Finance costs, inclusive of exchange differences

Finance costs, inclusive of exchange differences, consist primarily of interest on the 6.875% Senior Notes (repaid in full in December 2013), the 7.625% Senior Notes, the 8% Senior Notes, the 9.75% Senior Notes, the Convertible Bonds, bank and other borrowings and the fair value changes on derivative financial instruments related to debt instruments. Finance costs are also net of amounts capitalized.

Profit before taxation

Profit before taxation consists of operating profit, net of finance costs, and includes increase in fair value of investment properties and share of results of associates.

Taxation

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

Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains. In addition, upon payments of interest or dividends by us to our security holders, no Cayman Islands withholding tax will be imposed.

Our income is derived entirely from our operations in the PRC. Under PRC law, our PRC operating subsidiaries were subject to enterprise income tax at the rate of 25.0%.

Under PRC law, we are subject to LAT, calculated by reference to all the gains we recognize arising from sales of real property in the PRC. LAT is payable on the appreciation in value representing the balance of the proceeds received on such sales, after deducting various prescribed items, including payments made for acquisition of land use rights, the direct costs and expenses of the development of the land and construction of the buildings and structures, finance costs up to a maximum of 5.0% of the total development costs, the appraised price of any existing buildings and structures on the land and taxes related to the assignment of the real property. LAT is charged at progressive rates ranging from 30.0% to 60.0%. Apart from the aforementioned deductions, property developers enjoy an additional deduction equal to 20.0% of the payment made for acquisition of land use rights and the costs of land development and construction of new buildings or related facilities. An exemption from payment of LAT may be available if the taxpayer constructs ordinary standard residential apartments and the appreciation amount does not exceed 20.0% of the sum of deductions allowed under PRC law. If, however, the appreciation amount exceeds 20.0% of the sum of allowable deductions, such

exemption is not available and the taxpayer will be liable for LAT on the full appreciation amount, after taking account of the allowable deductions. During the years ended December 31, 2011, 2012 and 2013, we paid provisional LAT at a rate ranging from 1% to 5% on the gross proceeds of pre-sales and sales of our properties. We have cleared LAT for certain projects sold prior to year 2009 with the final settlement approximated to our LAT provision. For most of the projects sold during the years ended December 31, 2011, 2012 and 2013, we have not yet been required to undergo the LAT clearance procedures and pay the full amount of LAT. We, however, have made what we believe to be adequate provisions for LAT in our consolidated financial statements for the years ended December 31, 2011, 2012 and 2013.

Our effective tax rates (computed by dividing taxation by profit before taxation) for the years ended December 31, 2011, 2012 and 2013 were 34.0%, 36.7% and 43.4% respectively.

Our tax charges comprise both the tax currently payable and deferred. No tax payment is required to be made for the deferred tax until the relevant tax liabilities arise in the subsequent year. We pay income tax on a monthly or quarterly basis, with the amount attributable to the taxable profit for the last month or quarter of each year payable subsequent to the reporting date.

The following table sets forth the components of tax expense for the years indicated:

	Year ended December 31,			
	2011	2012	2013	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
PRC enterprise income tax	704	419	459	76
Deferred taxation	717	610	973	160
PRC LAT	641	334	640	106
Total tax expense	<u>2,062</u>	<u>1,363</u>	<u>2,072</u>	<u>342</u>

A significant portion of our tax charges for the years ended December 31, 2011, 2012 and 2013 are deferred tax liabilities which are detailed in the notes to our consolidated financial statements for the years ended December 31, 2011, 2012 and 2013 included elsewhere in this Offering Memorandum. The deferred tax liabilities are mainly attributable to the increase in fair value of investment properties. During the years ended December 31, 2011, 2012 and 2013, the valuation gains of RMB2,696 million, RMB2,698 million and RMB2,912 million (US\$481 million) resulted in a corresponding deferred tax provision of RMB674 million, RMB675 million and RMB728 million (US\$120 million) respectively. The provisions represent the PRC enterprise income tax of 25% on the revaluation surplus we expect to be payable. We expect such tax liabilities to be due and payable when properties generate returns in excess of the original cost in a subsequent year. In alignment with our current accounting of the revaluation surplus, the deferred tax effect of the surplus has been charged to the consolidated statement of profit or loss in the period in which the revaluation surplus arises.

Owners of perpetual capital securities' interests

The Group issued 10.125% Perpetual Capital Securities in an aggregate amount of US\$500 million and guaranteed by the Company on December 10, 2012. The 10.125% Perpetual Capital Securities are classified as equity instruments in the financial statements. Owners of perpetual capital securities' interests represent the 10.125% coupon on the perpetual capital securities.

Non-controlling interests

Non-controlling interests relate to the proportionate share of our results attributable to joint venture partners and non-controlling shareholders in our project companies.

RESULTS OF OPERATIONS

For the years ended December 31, 2012 and 2013

The following discussion is based on, and should be read in conjunction with, the consolidated financial statements for the years ended December 31, 2012 and 2013, included elsewhere in this Offering Memorandum.

Turnover

The following table sets forth our turnover by segment for the years indicated:

	Year ended December 31,				
	2012		2013		
	(RMB in millions)	(Percent of total turnover)	(RMB in millions)	(US\$ in millions)	(Percent of total turnover)
Property development	3,541	73.4%	8,361	1,381	85.1%
Property investment	1,249	26.0%	1,440	238	14.6%
Others	31	0.6%	27	4	0.3%
Total	<u>4,821</u>	<u>100.0%</u>	<u>9,828</u>	<u>1,623</u>	<u>100.0%</u>

Our turnover increased by 104% to RMB9,828 million (US\$1,623 million) for the year ended December 31, 2013, compared to RMB4,821 million for the year ended December 31, 2012. This increase was primarily due to more properties being delivered and recognized in 2013, in particular the delivery of the Shanghai KIC residential project and en-bloc sales of commercial buildings 3, 4, 5, 6, 7 and 8 Corporate Avenue in the Chongqing Tiandi project.

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

Property development

The following table sets forth sales revenue, GFA and ASP per sq.m. of property sold for the years indicated:

Projects	Year ended December 31,						
	2012			2013			
	Sales revenue ⁽¹⁾	GFA Sold	ASP ⁽³⁾	Sales revenue ⁽¹⁾	GFA Sold	ASP ⁽³⁾	
	(RMB in millions)	(sq.m.)	(RMB/sq.m.)	(RMB in millions)	(US\$ in millions)	(sq.m.)	(RMB/sq.m.)
Shanghai Taipingqiao . . .	157	1,050	158,100	4,057	670	79,000	54,400
Shanghai Rui Hong Xin Cheng	200	5,350	39,600	—	—	—	—
Shanghai KIC	53	2,700	20,800	2,124	351	60,600	37,100
Wuhan Tiandi	1,238	57,500	22,800	1,494	247	68,200	23,200
Chongqing Tiandi ⁽²⁾	1,184	115,300	13,300	4,151	686	356,500	13,100
Foshan Lingnan Tiandi	437	18,800	24,700	586	97	28,700	21,700
Sub-total	3,269	200,700	17,300	12,412	2,051	593,000	22,200
Carparks and others	294			378	62		
Total	3,563			12,790	2,113		
Recognized as:							
- property sales in turnover of the Group	3,541	199,700	18,800	8,361	1,381	502,100	17,600
- disposal of investment properties	22	1,000		372	62	11,900	
- disposal of equity in subsidiary holding investment properties	—	—		4,057	670	79,000	
Total	3,563	200,700		12,790	2,113	593,000	

Notes:

- (1) Stated after the deduction of business tax of 5% and other surcharges/taxes.
- (2) ASP of Chongqing residential sales is based on net floor area, a common market practice in the region.
- (3) Except as otherwise provided, average selling price is calculated as turnover (inclusive of business tax of 5% and other surcharges/taxes) divided by GFA sold.

Property sales in turnover of the Group for the year ended December 31, 2013 increased by 136.1% to RMB8,361 million (US\$1,381 million), compared to RMB3,541 million for the year ended December 31, 2012. The increase was mainly due to an increase in GFA delivery to customers from 199,700 sq.m. in the year ended December 31, 2012 to 502,100 sq.m in the year ended December 31, 2013, partially offset by a decrease in ASP from RMB18,800 per sq.m. in the year ended December 31, 2012 to RMB17,600 per sq.m. in the year ended December 31, 2013.

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Property investment

The following table sets forth our turnover from investment properties for the years indicated:

Projects	Year ended December 31,		
	2012	2013	
	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Shanghai Taipingqiao	874	961	159
Shanghai Rui Hong Xin Cheng	54	58	10
Shanghai KIC	155	190	31
Wuhan Tiandi	58	60	10
Chongqing Tiandi	16	21	3
Foshan Lingnan Tiandi	74	133	22
Hangzhou Xihu Tiandi	18	17	3
Total	<u>1,249</u>	<u>1,440</u>	<u>238</u>

Turnover from our investment properties increased by RMB191 million or 15.3%, to RMB1,440 million (US\$238 million) for the year ended December 31, 2013 from RMB1,249 million for the year ended December 31, 2012. The increase was mainly due to the additional income contributed through the acquisitions of Shanghai Shui On Plaza and Shanghai Langham Xintiandi Hotel in March 2012, as well as rental growth from the existing completed investment properties portfolio.

Cost of sales

The following table sets forth our cost of sales by segment for the years indicated:

	Year ended December 31,				
	2012		2013		
	(RMB in millions)	(Percent of total cost of sales)	(RMB in millions)	(US\$ in millions)	(Percent of total cost of sales)
Property development	2,201	79.7%	6,071	1,003	91.0%
Property investment	550	19.9%	594	98	8.9%
Others	10	0.4%	8	1	0.1%
Total	<u>2,761</u>	<u>100.0%</u>	<u>6,673</u>	<u>1,102</u>	<u>100.0%</u>

Our cost of sales increased by RMB3,912 million or 141.7%, to RMB6,673 million (US\$1,102 million) for the year ended December 31, 2013 from RMB2,761 million for the year ended December 31, 2012. The increase was primarily attributable to the increase in property sales during the year ended December 31, 2013.

Gross profit

As a result of the foregoing, our gross profit increased by RMB1,095 million or 53.2%, to RMB3,155 million (US\$521 million) for the year ended December 31, 2013 from RMB2,060 million for the year ended December 31, 2012. Our gross profit margin (computed by dividing gross profit (i.e. turnover less cost of sales) by turnover) decreased by 10.6%, from 42.7% for the year ended December 31, 2012, to 32.1% for the year ended December 31, 2013. The decline in gross profit margin was mainly attributable to the higher proportion of turnover from property sales during the year ended December 31, 2013, which have lower gross profit margins than rental and related income.

Other income

Our other income increased by RMB320 million or 113.5%, to RMB602 million (US\$99 million) for the year ended December 31, 2013 from RMB282 million for the year ended December 31, 2012. The increase was mainly due to the one-off accounting gain of RMB159 million from the disposal of Lot 126 in the Shanghai Taipingqiao project, a gain of RMB51 million from the disposal of other investment properties and an increase of RMB112 million in grants received from local government.

Selling and marketing expenses

Our selling and marketing expenses increased by RMB121 million or 58.5%, to RMB328 million (US\$54 million) for the year ended December 31, 2013 from RMB207 million for the year ended December 31, 2012. The increase was mainly due to the increase in contracted sales achieved by the Group (excluding sales by associates) to RMB9,140 million for the year ended December 31, 2013 as compared to RMB5,091 million for the year ended December 31, 2012.

General and administrative expenses

Our general and administrative expenses increased by RMB200 million or 27.1%, to RMB938 million (US\$155 million) for the year ended December 31, 2013 from RMB738 million for the year ended December 31, 2012. The increase was mainly due to the addition of a professional commercial and leasing team from Taubman TCBL in December 2012, setting up China Xintiandi Limited on March 1, 2013 and engaging more advisory firms for a range of services.

Increase in fair value of investment properties

The following table sets forth our increase in fair value of investment properties for the years indicated:

	Year ended December 31,		
	2012	2013	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Completed investment properties	708	749	124
Investment properties under construction or development	<u>1,990</u>	<u>2,163</u>	<u>357</u>
Total	<u><u>2,698</u></u>	<u><u>2,912</u></u>	<u><u>481</u></u>

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The increase in fair value of investment properties (before deferred taxation) increased by RMB214 million or 7.9%, to RMB2,912 million (US\$481 million) for the year ended December 31, 2013 from RMB2,698 million for the year ended December 31, 2012. The increase in fair value of investment properties for the year ended December 31, 2013 was primarily attributable to the accelerated construction works of 3 Corporate Avenue located at Shanghai Taipingqiao and THE HUB.

Share of results of associates

Our share of results of associates decreased by RMB260 million or 317.1%, to a loss of RMB178 million (US\$29 million) for the year ended December 31, 2013, as compared to a gain of RMB82 million for the year ended December 31, 2012. The share of results of associates included a revaluation loss of RMB129 million and a revaluation gain of RMB88 million, respectively, for the years ended December 31, 2013 and 2012, from investment properties and properties under development for sale (net of tax effect) attributable to the Group.

Finance costs, inclusive of exchange differences

The following table sets forth the breakdown of our finance costs for the years indicated:

	Year ended December 31,		
	2012	2013	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Interest costs, before capitalization	2,487	3,103	513
Less: Amount capitalized to investment properties under construction or development, properties under development for sale and hotels under development	(2,002)	(2,500)	(413)
	485	603	100
Net exchange gain on bank borrowings and other financing activities	(54)	(363)	(60)
Other finance costs	28	208	34
Total	459	448	74

Finance costs, inclusive of exchange differences, decreased to a net expense of RMB448 million (US\$74 million) for the year ended December 31, 2013 from a net expense of RMB459 million for the year ended December 31, 2012. With the issuance of S\$250 million 8% Senior Notes in January 2012, US\$475 million 9.75% Senior Notes in January and February 2012, and US\$400 million 9.75% Senior Notes in August 2012, gross interest expenses increased to RMB3,103 million (US\$513 million) for the year ended December 31, 2013 from RMB2,487 million for the year ended December 31, 2012. Capitalized borrowing costs increased correspondingly to RMB2,500 million (US\$413 million) for the year ended December 31, 2013 from RMB2,002 million for the year ended December 31, 2012. Of these interest costs in the year ended December 31, 2013, 81% or RMB2,500 million (US\$413 million) were capitalized as cost of property development, with the remaining 19% interest relating to mortgage loans on completed properties and borrowings for general working capital purposes were expensed. In the year ended December 31, 2012, 80% or RMB2,002 million were capitalized as cost of property development.

Taxation

Taxation increased by RMB709 million or 52.0%, to RMB2,072 million (US\$342 million) for the year ended December 31, 2013 from RMB1,363 million for the year ended December 31, 2012. The increase was mainly due to an increase in profit before taxation of RMB1,059 million from RMB3,718 million for the year ended December 31, 2012 to RMB4,777 million (US\$789 million) for the year ended December 31, 2013. Our effective tax rate (computed by dividing taxation by profit before taxation) for the year ended December 31, 2012 and 2013 was 36.7% and 43.4%, respectively. Excluding the LAT together with its effect on enterprise income tax, our effective tax rates for the year ended December 31, 2012 and 2013 were 29.9% and 33.3%, respectively. The increase in the effective tax rate was attributable to the increase in interest costs from offshore borrowings, which were not deductible in the PRC.

Profit attributable to shareholders of the Company

Our profit attributable to shareholders increased by RMB96 million or 4.7%, to RMB2,125 million (US\$351 million) for the year ended December 31, 2013 from RMB2,029 million for the year ended December 31, 2012 as a result of the factors described above.

Profit attributable to owners of perpetual capital securities

Profit attributable to owners of perpetual capital securities increased by RMB295 million to RMB314 million (US\$52 million) for the year ended December 31, 2013 from RMB19 million for the year ended December 31, 2012.

Profit attributable to other non-controlling shareholders of subsidiaries

Profit attributable to other non-controlling shareholders of subsidiaries decreased by RMB41 million to RMB266 million (US\$44 million) for the year ended December 31, 2013 from RMB307 million for the year ended December 31, 2012.

For the years ended December 31, 2011 and 2012

The following discussion is based on, and should be read in conjunction with, the consolidated financial statements for the years ended December 31, 2011 and 2012, included elsewhere in this Offering Memorandum.

Turnover

The following table sets forth our turnover by segment for the years indicated:

	Year ended December 31,			
	2011		2012	
	<i>(RMB in millions)</i>	<i>(Percent of total turnover)</i>	<i>(RMB in millions)</i>	<i>(Percent of total turnover)</i>
Property development.	7,581	89.4%	3,541	73.4%
Property investment	849	10.0%	1,249	26.0%
Others	54	0.6%	31	0.6%
Total	<u>8,484</u>	<u>100.0%</u>	<u>4,821</u>	<u>100.0%</u>

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Our turnover decreased by 43.2% to RMB4,821 million in 2012, compared to RMB8,484 million in 2011. This decrease was primarily due to fewer property sales being recognized in 2012.

Property development

The following table sets forth sales revenue, GFA and ASP per sq.m. of property sold in the years indicated:

Projects	Year ended December 31,					
	2011			2012		
	Sales revenue ⁽¹⁾ <i>(RMB in millions)</i>	GFA Sold <i>(sq.m.)</i>	ASP ⁽³⁾ <i>(RMB/sq.m.)</i>	Sales revenue ⁽¹⁾ <i>(RMB in millions)</i>	GFA Sold <i>(sq.m.)</i>	ASP ⁽³⁾ <i>(RMB/sq.m.)</i>
Shanghai Taipingqiao	827	5,900	148,600	157	1,050	158,100
Shanghai Rui Hong Xin Cheng	2,133	57,700	39,200	200	5,350	39,600
Shanghai KIC	575	16,700	36,500	53	2,700	20,800
Wuhan Tiandi	2,349	107,900	23,100	1,238	57,500	22,800
Chongqing Tiandi ⁽²⁾	1,083	107,300	13,400	1,184	115,300	13,300
Foshan Lingnan Tiandi	1,061	50,600	22,200	437	18,800	24,700
Sub-total	8,028	346,100	24,600	3,269	200,700	17,300
Carparks and others	166			294		
Total	8,194			3,563		
Recognized as:						
- property sales in turnover of the Group	7,581	329,400	24,400	3,541	199,700	18,800
- disposals of investment properties	613	16,700		22	1,000	
Total	8,194	346,100		3,563	200,700	

Notes:

- (1) Stated after the deduction of business tax of 5% and other surcharges/taxes.
- (2) ASP of Chongqing residential sales is based on net floor area, a common market practice in the region.
- (3) Except as otherwise provided, average selling price is calculated as turnover (inclusive of business tax of 5% and other surcharges/taxes) divided by GFA sold.

Property sales in turnover of the Group for the year ended December 31, 2012 decreased by 53.3% to RMB3,541 million, compared to RMB7,581 million for the year ended December 31, 2011. The decrease was mainly due to a decrease in GFA delivery to customers from 329,400 sq.m. in the year ended December 31, 2011 to 199,700 sq.m. in the year ended December 31, 2012 and a decrease in ASP from RMB24,400 per sq.m. in the year ended December 31, 2011 to RMB18,800 per sq.m. in the year ended December 31, 2012.

Property investment

The following table sets forth our turnover from investment properties for the years indicated:

Projects	Year ended December 31,	
	2011	2012
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>
Shanghai Taipingqiao	588	874
Shanghai Rui Hong Xin Cheng	41	54
Shanghai KIC	102	155
Wuhan Tiandi	48	58
Chongqing Tiandi	17	16
Foshan Lingnan Tiandi	35	74
Hangzhou Xihu Tiandi	18	18
Total	<u>849</u>	<u>1,249</u>

Turnover from our investment properties increased by RMB400 million or 47.1%, to RMB1,249 million for the year ended December 31, 2012 from RMB849 million for the year ended December 31, 2011. The increase was primarily due to rental growth from the existing completed investment property portfolio and income from the newly acquired matured investment properties, namely Shanghai Shui On Plaza and Shanghai Langham Xintiandi Hotel. These acquisitions were completed on March 16, 2012.

Cost of sales

The following table sets forth our cost of sales by segment for the years indicated:

	Year ended December 31,			
	2011		2012	
	<i>(RMB in millions)</i>	<i>(Percent of total cost of sales)</i>	<i>(RMB in millions)</i>	<i>(Percent of total cost of sales)</i>
Property development	4,490	93.9%	2,201	79.7%
Property investment	269	5.6%	550	19.9%
Others	24	0.5%	10	0.4%
Total	<u>4,783</u>	<u>100.0%</u>	<u>2,761</u>	<u>100.0%</u>

Our cost of sales decreased by RMB2,022 million or 42.3%, to RMB2,761 million for the year ended December 31, 2012 from RMB4,783 million for the year ended December 31, 2011. The decrease was primarily attributable to the decrease in property sales for the year ended December 31, 2012 partially offset the increase in costs due to the growth of our property investment business.

Gross profit

As a result of the foregoing, our gross profit decreased by RMB1,641 million or 44.3%, to RMB2,060 million for the year ended December 31, 2012 from RMB3,701 million for the year ended December 31, 2011. Our gross profit margin (computed by dividing gross profit (i.e. turnover less cost of sales) by turnover) decreased by 0.9%, from 43.6% for the year ended December 31, 2011, to 42.7% for the year ended December 31, 2012.

Other income

Our other income increased by RMB21 million or 8.0%, to RMB282 million for the year ended December 31, 2012 from RMB261 million for the year ended December 31, 2011. The increase mainly resulted from an accounting gain of RMB50 million from acquisition of Shanghai Langham Xintiandi Hotel.

Selling and marketing expenses

Our selling and marketing expenses increased by RMB12 million or 6.2%, to RMB207 million for the year ended December 31, 2012 from RMB195 million for the year ended December 31, 2011. The increase was mainly due to the increase in contracted sales achieved by the Group in 2012 by 16% to 218,100 sq.m. (2011: 188,000 sq.m.) omitting en-bloc sales that incurred fewer marketing and promotional expenses.

General and administrative expenses

Our general and administrative expenses increased by RMB104 million or 16.4%, to RMB738 million for the year ended December 31, 2012 from RMB634 million for the year ended December 31, 2011. The increase was mainly due to increasing depreciation expenses which resulted from the acquisition of Shanghai Langham Xintiandi Hotel in March 2012 and the completion of the Marco Polo Lingnan Tiandi Foshan Hotel in May 2012.

Increase in fair value of investment properties

The following table sets forth our increase in fair value of investment properties for the years indicated:

	Year ended December 31,	
	2011	2012
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>
Completed investment properties	1,648	708
Investment properties under construction or development.	<u>1,048</u>	<u>1,990</u>
Total	<u><u>2,696</u></u>	<u><u>2,698</u></u>

The increase in fair value of investment properties (before deferred taxation) increased by RMB2 million or 0.1%, to RMB2,698 million for the year ended December 31, 2012 from RMB2,696 million for the year ended December 31, 2011.

Share of results of associates

Our share of results of associates decreased by RMB55 million or 40.1%, to a gain of RMB82 million for the year ended December 31, 2012, compared to a gain of RMB137 million for the year ended December 31, 2011. The share of results of associates included a revaluation gain from investment properties under development or construction (net of tax effect) of RMB88 million attributable to the Group for the year ended December 31, 2012. The decrease in the share of results of associates was due to a different mix of property sales, with comparatively more property sales of mid/high-rise residential units (which carried a lower margin of sales than villas) than the sales of villas sold in the year ended December 31, 2012 compared with the year ended December 31, 2011.

Finance costs, inclusive of exchange differences

The following table sets forth the breakdown of our finance costs for the years indicated:

	Year ended December 31,	
	2011	2012
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>
Interest costs, before capitalization	1,800	2,487
Less: Amount capitalized to investment properties under construction or development and properties under development for sale	(1,608)	(2,002)
	192	485
Net exchange gain on bank borrowings and other financing activities	(311)	(54)
Other finance costs	25	28
Total	(94)	459

Finance costs, inclusive of exchange differences, represented a net expense of RMB459 million for the year ended December 31, 2012 from a net gain of RMB94 million for the year ended December 31, 2011. With the issuance of S\$250 million 8% Senior Notes in January 2012, US\$475 million 9.75% Senior Notes in January and February 2012, and US\$400 million 9.75% Senior Notes in August 2012, gross interest expenses increased to RMB2,487 million for the year ended December 31, 2012 from RMB1,800 million for the year ended December 31, 2011. Capitalized borrowing costs increased correspondingly to RMB2,002 million for the year ended December 31, 2012 from RMB1,608 million for the year ended December 31, 2011. Of these interest costs in 2012, 80% or RMB2,002 million were capitalized as cost of property development, with the remaining 20% interest relating to mortgage loans on completed properties and borrowings for general working capital purposes were expensed. In the year ended December 31, 2011, 89% or RMB1,608 million were capitalized as cost of property development.

Taxation

Taxation decreased by RMB699 million or 33.9%, to RMB1,363 million for the year ended December 31, 2012 from RMB2,062 million for the year ended December 31, 2011. The decrease was due to a decrease in profit before taxation of RMB2,342 million from RMB6,060 million for the year ended December 31, 2011 to RMB3,718 million for the year ended December 31, 2012. Our effective tax rate (computed by dividing taxation by profit before taxation) for the years ended December 31, 2011 and

2012 was 34.0% and 36.7%, respectively. Excluding the LAT together with its effect on enterprise income tax, our effective tax rates for the years ended December 31, 2011 and 2012 were 26.0% and 29.9%, respectively. The increase in the effective tax rate was attributable to the increase in interests on offshore borrowings which were not tax deductible in the PRC.

Profit attributable to shareholders of the Company

Our profit attributable to shareholders decreased by RMB1,399 million or 40.8%, to RMB2,029 million for the year ended December 31, 2012 from RMB3,428 million for the year ended December 31, 2011 as a result of the factors described above.

Profit attributable to owners of perpetual capital securities

Profit attributable to owners of perpetual capital securities was RMB19 million for the year ended December 31, 2012, due to the issuance of 10.125% Perpetual Capital Securities in December 2012.

Profit attributable to other non-controlling shareholders of subsidiaries

Profit attributable to other non-controlling shareholders of subsidiaries decreased by RMB263 million to RMB307 million for the year ended December 31, 2012 from RMB570 million for the year ended December 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for construction costs, land costs (principally the payment of land grant fees and relocation costs), infrastructure costs, consulting fees paid to architects and designers and finance costs, as well as to service our indebtedness and fund working capital and normal recurring expenses. We have to-date financed our liquidity requirements, and anticipate that we will likely, in the future, continue to finance our liquidity requirements, through a combination of internal resources, offering of debt and equity securities and bank borrowings (including project-specific bank borrowings) as described below:

Internal resources

Cash generated from our operating activities, including proceeds from sales of properties and rental income.

Proceeds from debt and equity offerings

In addition to the Notes offered hereby, the Convertible Bonds, the 6.875% Senior Notes (repaid in full in December 2013), the 7.625% Senior Notes, the 8% Senior Notes, the 9.75% Senior Notes, the 10.125% Perpetual Capital Securities and the 2017 Senior Notes raised gross proceeds of approximately RMB2,720 million, RMB3,000 million, RMB3,500 million, RMB1,226 million, RMB5,629 million, RMB3,137 million and RMB2,500 million, respectively. We will continue to consider from time to time additional offerings of our debt and equity securities based on our liquidity needs and general market and economic conditions at that time.

Bank Borrowings

As of December 31, 2013, we had total bank and other borrowings of RMB24,366 million (US\$4,025 million), which includes RMB21,857 million (US\$3,611 million) in the form of secured bank borrowings. For our property development projects we often obtain project-specific bank borrowings that are secured by our properties under development and our land use rights, and usually repay such borrowings using a portion of our pre-sale proceeds of the relevant properties.

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As of December 31, 2013, we had cash and bank deposits of RMB10,180 million (US\$1,681 million), which included RMB3,571 million (US\$590 million) of deposits pledged to banks.

The following table sets forth our summary cash flow data for the years indicated:

	Year ended December 31,			
	2011	2012	2013	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Net cash from (used in) operating activities	528	(2,185)	1,826	302
Net cash used in investing activities	(7,179)	(3,720)	(3,008)	(497)
Net cash from financing activities	5,631	8,677	423	70
Net (decrease) increase in cash and cash equivalents	<u>(1,020)</u>	<u>2,772</u>	<u>(759)</u>	<u>(125)</u>

Operating Activities

Our cash generated from operating activities consists primarily of cash received from the sale of units in our residential properties and rental income received from our investment properties, partially offset by changes in working capital.

	Year ended December 31,			
	2011	2012	2013	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Other operating activities	(399)	337	414	69
Profit before taxation	6,060	3,718	4,777	789
Adjustments for:				
Increase in fair value of investment properties	(2,696)	(2,698)	(2,912)	(481)
Operating cash flows before movements in working capital	2,965	1,357	2,279	377
(Decrease) increase in accounts receivable, deposits and prepayments	1,079	(87)	(2,529)	(418)
Increase in properties under development for sale	(7,010)	(6,712)	(5,043)	(833)
Decrease in properties held for sale	4,485	2,178	6,049	999
(Increase) decrease in restricted bank deposits	(92)	152	(1,048)	(173)
(Increase) decrease in amounts due from related companies	(163)	79	(137)	(23)
Increase (decrease) in amounts due to related companies	273	(41)	(213)	(35)
(Decrease) increase in amounts due to associates	(24)	6	(11)	(2)
(Decrease) increase in accounts payable, deposits received and accrued charges	(265)	2,587	3,663	605
Cash generated from (used in) operations	1,248	(481)	3,010	497
Tax paid	(720)	(1,704)	(1,184)	(195)
Net cash from (used in) operating activities	<u>528</u>	<u>(2,185)</u>	<u>1,826</u>	<u>302</u>

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For the year ended December 31, 2013, we generated a net cash inflow of RMB1,826 million (US\$302 million) compared to a net cash outflow of RMB2,185 million for the year ended December 31, 2012, a change of RMB4,011 million. The change was primarily due to the increase in cash received from property sales in the year ended December 31, 2013.

For the year ended December 31, 2012, we generated a net cash outflow of RMB2,185 million compared to a net cash inflow of RMB528 million for the year ended December 31, 2011, a change of RMB2,713 million. The change was primarily due to the decrease in cash received from property sales in the year ended December 31, 2012.

Investing Activities

Our principal investing activity is the development of city-core development and integrated residential development projects. In the years ended December 31, 2011, 2012 and 2013, we experienced net cash outflows as a result of our investing activities.

The following table sets forth our summary cash flow on investing activities for the years indicated:

	Year ended December 31,			
	2011	2012	2013	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
Investing activities				
Interest received	119	137	178	30
Purchase of property, plant and equipment	(237)	(464)	(186)	(31)
Proceeds from disposal of property, plant and equipment	—	—	2	—
Additions to investment properties	(7,280)	(3,617)	(4,450)	(735)
Proceeds from disposal of investment properties . . .	613	24	444	73
Additions to prepaid lease payments	(434)	—	—	—
Advances to associates	(120)	(412)	(80)	(13)
Cash inflow from acquisition of subsidiaries	—	111	—	—
Net cash inflow on disposal of subsidiaries	342	—	3,178	525
Withdrawal of pledged bank deposits	645	1,895	1,005	166
Placement of pledged bank deposits	(1,272)	(1,546)	(2,413)	(399)
Repayment of loans receivable	<u>445</u>	<u>152</u>	<u>—</u>	<u>—</u>
Investment in a joint venture	—	—	(25)	(4)
Advance of loans to a joint venture	—	—	(675)	(111)
Repayment from non-controlling shareholders of subsidiaries	<u>—</u>	<u>—</u>	<u>14</u>	<u>2</u>
Net cash used in investing activities	<u><u>(7,179)</u></u>	<u><u>(3,720)</u></u>	<u><u>(3,008)</u></u>	<u><u>(497)</u></u>

For the year ended December 31, 2013, net cash used in investing activities decreased by RMB712 million or 19.1%, to a net cash outflow of RMB3,008 million (US\$497 million) from RMB3,720 million for the year ended December 31, 2012. The change was primarily due to cash inflow on disposal of Lot 126 in the Shanghai Taipingqiao project in the year ended December 31, 2013.

For the year ended December 31, 2012, net cash used in investing activities decreased by RMB3,459 million or 48.2%, to a net cash outflow of RMB3,720 million from RMB7,179 million for the year ended December 31, 2011. The decrease was primarily due to a decrease in cash outflow on the additions to investment properties in the year ended December 31, 2012.

Financing Activities

Historically, our cash from financing activities was derived from offerings of our equity securities, bank and other borrowings and issuance of new shares under rights issue.

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The following table sets forth our summary cash flow on financing activities for the years indicated:

	Year ended December 31,			
	2011	2012	2013	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Financing activities				
Advance from non-controlling shareholders of subsidiaries	410	193	104	17
Repayment of loans advanced by non-controlling shareholders of subsidiaries	(733)	(15)	(102)	(17)
Capital injected by non-controlling shareholders of subsidiaries	26	32	25	4
Cash outflow from acquisition of additional interests in subsidiaries	—	—	(177)	(29)
Deposit received in respect of partial disposal of equity interests in subsidiaries	352	—	—	—
Proceeds received in respect of partial disposal of equity interests in subsidiaries	—	138	39	7
New bank and other borrowings raised	6,106	10,001	12,230	2,020
Repayment of bank and other borrowings	(2,082)	(9,066)	(5,776)	(954)
Issue of notes	3,500	6,952	—	—
Expenses on issue of notes	(70)	(137)	—	—
Issue of perpetual capital securities	—	3,137	—	—
Expenses on issue of perpetual capital securities	—	(63)	—	—
Issue of new shares under rights issue	—	—	2,937	485
Share issue expenses	—	—	(38)	(6)
Repayment of notes	—	—	(3,000)	(495)
Repurchase and redemption of convertible bonds	—	—	(2,287)	(378)
Settlement of interest rate swaps designated as cash flow hedges	—	(73)	—	—
Interest paid	(1,547)	(2,220)	(2,838)	(469)
Payment of dividends	(327)	(182)	(363)	(60)
Distribution to owners of perpetual capital securities	—	—	(313)	(52)
Dividend payment to a non-controlling shareholder of a subsidiary	(4)	(20)	(18)	(3)
Net cash from financing activities	5,631	8,677	423	70

For the year ended December 31, 2013, net cash from financing activities decreased by RMB8,254 million or 95.1%, to RMB423 million (US\$70 million) from RMB8,677 million for the year ended December 31, 2012. The decrease was primarily due to repayment of the 6.875% Senior Notes in full in December 2013 and no issuance of new notes in the year ended December 31, 2013.

For the year ended December 31, 2012, net cash from financing activities increased by RMB3,046 million or 54.1%, to RMB8,677 million from RMB5,631 million for the year ended December 31, 2011. Net cash from financing activities increased primarily because of the new issuance of notes and perpetual capital securities in the year ended December 31, 2012.

Contractual Obligations

Capital expenditure

As of December 31, 2013, we were contractually committed to spend RMB12,219 million (US\$2,018 million) on capital expenditure required for our property developments, primarily consisting of land costs and construction costs.

The following table sets forth information on our capital commitments as of December 31, 2013:

	Capital commitments with respect to the development cost contracted	
	(RMB in millions)	(US\$ in millions)
Development costs for investment properties under construction or development	7,250	1,197
Development costs for properties under development held for sale. . .	4,969	821
Total	12,219	2,018

Secured assets

Our PRC subsidiaries have project construction loans from time to time and these project loans are generally secured by mortgages over the land use rights of the project companies, our equity interests in the project companies, insurance over their assets and properties, the proceeds from rental and sale of our completed properties and bank accounts. Upon completion of our investment property projects, we generally seek to refinance those project construction loans with mortgage loans secured by mortgages over the completed properties. We have also pledged shares of our non-PRC subsidiaries and bank deposits to secure certain of our financing arrangements.

As of December 31, 2013, we had pledged certain land use rights, completed properties for investment and sale, properties under development, accounts receivable and bank and cash balances totaling approximately RMB60,785 million (US\$10,041 million) to secure our borrowings of RMB21,857 million (US\$3,611 million), or 89.7% of our bank and other borrowings. In addition, the equity interests in certain subsidiaries with carrying amount of net assets as of December 31, 2013 of RMB24,710 million (US\$4,082 million) are also pledged to banks as security for certain of our banking facilities.

Indebtedness and other commitments

Long-term debts

As of December 31, 2013, we had long-term debts of RMB28,776 million (US\$4,753 million), which are due after one year from the reporting date.

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

The following table sets forth the maturities of our long-term debts as of December 31, 2013:

	Convertible bonds	Senior notes	Bank and other borrowings	Total long-term debts	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
1 to 2 years	395	10,330	8,289	19,014	3,141
2 to 5 years	—	—	8,869	8,869	1,465
More than 5 years	—	—	893	893	147
Total	<u>395</u>	<u>10,330</u>	<u>18,051</u>	<u>28,776</u>	<u>4,753</u>

Quantitative and qualitative disclosures about market risks

We are exposed to various types of market risks in the ordinary course of our business, including fluctuations in interest rates and foreign exchange rates.

Interest rate risk

We are exposed to interest rate risk resulting from fluctuations in interest rates. A substantial portion of our bank and other borrowings consists of variable rate debt obligations with original maturities ranging from two to six years for our project construction loans and two to twelve years for our mortgage loans. Increases in interest rates would raise interest expenses relating to our outstanding variable rate borrowings and cost of new debts. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of our debt obligations. At December 31, 2013, we had outstanding interest rate swaps to hedge against the variability of cash flows arising from the interest rate fluctuations. Under these swaps, we would receive interest at variable rates at HIBOR and pay interest at fixed rates ranging from 0.53% to 0.64%, receive interest at variable rates at the London Interbank Offered Rates (“LIBOR”) and pay interests at fixed rates ranging from 0.54% to 0.71% and receive interest at 110% of the PBOC prescribed interest rate and pay interest at a fixed rate of 7.52% and 7.85%, based on the notional amounts of HK\$3,227 million, US\$305 million and RMB456 million in aggregate. The principal terms of the interest rate swaps have been negotiated to match the terms of the related bank borrowings. Other than the transactions described above, we do not hold any other derivative instruments to manage our interest rate risk. To the extent we decide to do so in the future, there can be no assurance that any future hedging activities will protect us from fluctuations in interest rates.

Foreign exchange risk

Substantially all of our revenue is denominated in Renminbi. The Convertible Bonds, the 6.875% Senior Notes (repaid in full in December 2013), the 7.625% Senior Notes and the 2017 Senior Notes were also denominated in Renminbi. As a result, the interests payments and the repayment of the principal amounts of the Convertible Bonds, the 6.875% Senior Notes, the 7.625% Senior Notes and the 2017 Senior Notes do not expose us to any exchange risks. A portion of the revenue, however, is converted into other currencies to meet our foreign-currency-denominated debt obligations, such as the bank borrowings denominated in Hong Kong dollars and U.S. dollars amount to the equivalent of RMB7,906 million and RMB2,686 million, respectively, as of December 31, 2013. As a result, the Group is exposed to fluctuations in foreign exchange rates upon the interest payments and principal repayments of these bank borrowings denominated in Hong Kong dollars and U.S.

dollars. In addition, the 8% Senior Notes, the 9.75% Senior Notes and the 10.125% Perpetual Capital Securities will increase the foreign exchange risk exposure to the Group upon the payment of distributions and redemption of our senior notes denominated in Singapore dollars and U.S. dollars, respectively. Considering that a relatively stable currency regime with regard to Renminbi is maintained by the PRC government, which only allows the exchange rate to fluctuate within a narrow range going forward, we expect the fluctuation of the exchange rates between Renminbi and Hong Kong dollars, U.S. dollars and Singapore dollars may not have a significant adverse effect to the financial position of the Group in the short-to-medium term. We continue to closely monitor the Group's exposure to exchange rate risk, and may employ derivative financial instruments to hedge against the risks exposed when necessary. To the extent we decide to implement additional hedging arrangements in the future, there can be no assurance that any current or future hedging activities will protect us from fluctuations in exchange rates.

The following table sets forth our bank and other borrowings by currency as of the dates indicated:

	As of December 31,			
	2011	2012	2013	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(US\$ in millions)</i>
RMB	6,760	9,735	13,774	2,275
HK\$	9,166	6,561	7,906	1,306
US\$	817	2,507	2,686	444
Total	16,743	18,803	24,366	4,025

Inflation

According to the National Bureau of Statistics of China, the change in the Consumer Price Index was 2.6% and 2.6% in 2012 and 2013, respectively. There can be no assurance that we will not be adversely affected by inflation or deflation in China in the future.

Credit Risk

As of December 31, 2013, there were no outstanding guarantees in place on mortgages.

Our principal financial assets are bank balances and cash, accounts receivable, loan receivables and amounts due from related companies, which represent our maximum exposure to credit risk in relation to financial assets. Our credit risk is primarily attributable to our accounts receivable and loan receivables. The amounts presented in the consolidated statements of financial position are net of allowances for bad and doubtful debts, estimated by our management based on prior experience and their assessment of the current economic environment. We have no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Commodities Risk

We consume large quantities of building materials, including raw iron, steel and concrete, in our property development operations. We typically enter into fixed or guaranteed maximum price construction contracts with independent construction companies, each of which covers the development of a significant part of our overall project. These contracts typically cover both the supply of the building materials and the construction of the facility, for a construction period of one to three years. If the price of building materials were to increase significantly prior to our entering into a fixed or guaranteed maximum price construction contract, we might be required to pay more to prospective contractors. See *“Risk Factors — Risks relating to our business — Our profit margin is sensitive to fluctuations in the cost of construction materials”*.

INDUSTRY OVERVIEW

The information and statistics set out in this section have been derived, in part, from various government publications and databases. This information has not been independently verified by us, the Joint Lead Managers or any of our and their respective affiliates and advisors or any other party involved in this offering. The information and statistics set out in this section may not be consistent with other information and statistics compiled within or outside the PRC.

In this section, GFA in each story of a building is calculated from the outside line of the building's walls, including both usable space and the space occupied by constructions, such as pillars or walls. The GFA of multi-story buildings includes the total floor space of each story (including any basement).

In this section, population refers to resident population unless otherwise stated.

THE ECONOMY OF THE PRC

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. In the past decade, China's gross domestic product, or GDP, increased from approximately RMB13,582 billion in 2003 to approximately RMB56,885 billion in 2013 at a compound annual growth rate ("CAGR") of approximately 15.4%.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Nominal GDP (RMB in billion)	13,582	15,988	18,494	21,631	26,581	31,405	34,090	40,151	47,310	51,894	56,885
Real GDP growth rate (%)	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.7
Per capita GDP (RMB)	10,542	12,336	14,185	16,500	20,169	23,708	25,608	30,015	35,198	38,420	41,805
Foreign Direct Investment											
- Actual investment (US\$ in billion)	53.5	60.6	60.3	63.0	74.8	92.4	90.0	105.7	116.0	111.7	117.6
- Contracted investment (US\$ in billion)	115.1	153.5	189.1	193.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Fixed Asset Investment (RMB in billion)	5,557	7,048	8,877	11,000	13,732	17,283	22,460	25,168	31,149	37,469	44,707

Source: China Statistical Yearbook 2013 and China Statistical Bureau

Since 2004, with a view to preventing China's economy from overheating and to achieving more balanced and sustainable economic growth, the PRC government has taken various measures to control money supply, credit availability and fixed asset investment. In particular, the PRC government has taken measures to discourage speculation in the residential property market and has increased the supply of affordable housing. See "Regulation".

CHINA PROPERTY MARKET OVERVIEW

Trends of the China property market

Investment in real estate development increased by a CAGR of 23.8% from 2003 to 2013 and the total gross floor area sold increased at a CAGR of 14.5% from 2003 to 2013. Average prices for both residential and commercial properties also rose significantly between 2003 and 2013 as demand for real estate from local and foreign investors increased.

The table below sets forth data for the China property market from 2003 to 2013:

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real estate investment (RMB billion)	1,015.4	1,315.8	1,590.9	1,942.3	2,528.9	3,120.3	3,624.2	4,825.9	6,179.7	7,180.4	8,601.3
GFA of all properties sold (million sq.m.)	337.2	382.3	554.9	618.6	773.5	659.7	947.6	1,047.6	1,093.7	1,113.0	1,305.5
Average price of residential commodity properties (RMB per sq.m.)	2,197	2,608	2,937	3,119	3,645	3,576	4,459	4,725	4,993	5,430	5,850
Average price of commercial properties (RMB per sq.m.)	3,675	3,884	5,022	5,247	5,774	5,886	6,871	7,747	8,488	9,021	9,777

Source: China Statistical Yearbook 2013 and China Real Estate Annual Report

KEY DRIVERS OF CHINA'S PROPERTY MARKET

Government policies

PRC government has introduced a series of macro control policies designed to stabilize the real estate market, with a particular focus on the residential sector. These policies were intended to strengthen macro control of the property market and to curb speculation in the property market. Since 2005, these policies mainly included:

In May 2005, the business tax and added fee of 5.55% on the transacted value in relation to the resale of residential property within two years after purchase was introduced. In May 2006, this measure was extended to resale transactions within five years after purchase.

In May 2006, the requirement that mortgage lenders must increase the down payment requirement from at least 20% to 30% of the property's value for units larger than 90 sq.m.

In May 2006, in approving housing development after June 1, 2006, the relevant local authority must require units smaller than 90 sq.m. each to account for at least 70% of the annual total construction area of new residential developments, except where the relevant local authority has, based on the existence of special circumstances, obtained approval from the Ministry of Construction to depart from this requirement. This restriction was further refined on July 6, 2006 clarifying that the 70% minimum could be applied on a city-wide basis by local authorities, rather than on the basis of individual developments.

From July 2006, the PRC government announced a package of new regulations concerning foreign investment in real estate to further promote the sustainable development of the property market in China. Those measures, applicable to foreign individuals, require buyers to show that they have worked or studied in China for a period of at least one year and that the property in question will be for self-occupation. Residents of Hong Kong, Macau, Taiwan and overseas Chinese residents are partially exempt from the one-year minimum residency requirement. Foreign individuals will need to establish a Foreign-Invested Enterprise (“FIE”) to purchase investment property. Among the key regulations applicable to foreign businesses are: a minimum capital requirement of 50% on investments greater than US\$10 million, and a requirement for government approvals prior to any real estate investment.

On August 14, 2006, the PRC government issued a new regulation, to regulate the access of foreign investors into the PRC property market and to strengthen the PRC government’s management of real estate purchases by foreign invested enterprises. This regulation provides among other things, stricter standards for foreign institutions and individuals purchasing real property in the PRC that is not intended for personal use.

On September 1, 2006, the PRC government issued new rules on foreign exchange control. This implies that, when buying property, a foreign purchaser must apply to an authorized bank in order to pay in foreign currency. A foreign purchaser must also provide documents such as the sale contract, business license, or identification certificate.

On May 23, 2007, the PRC government issued a notice to further regulate foreign investment in the real estate industry. This notice requires that before applying for establishment of a foreign-invested real estate company, foreign investors should first obtain the land-use rights or building ownership. Additionally they should enter into pre-sale or pre-grant agreements in relation to the land-use rights or building ownership. In October, 2007, the NDRC and MOFCOM jointly issued the Foreign Investment Industrial Guidance Catalogue (2007 version) (外商投資產業指導目錄(2007年修訂)). In this catalogue, projects for construction and operation of high-end real estate are categorized as “restricted” projects for foreign investment and thus are subject to approvals at higher levels of the government. For example, a restricted foreign investment with total investment exceeding US\$50 million requires ministerial-level approval. On December 24, 2011, NDRC and MOFCOM jointly issued the new Foreign Investment Industrial Guidance Catalogue (2011 Revision) (外商投資產業指導目錄(2011年修訂)), effective as of January 30, 2012 and pursuant to which foreign investment in the construction and operation of villas has been moved from the restricted category to the prohibited category.

On July 10, 2007, the General Affairs Department of the SAFE issued the Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment That Have Properly Registered with the MOFCOM (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知). The notice stipulates, among other things, (i) that the SAFE will no longer process foreign debt registrations or applications for purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained authorization certificates from local commerce departments and registered with the MOFCOM on or after June 1, 2007 and (ii) that the SAFE will no longer process foreign exchange registrations (or change of such registrations) or applications for sale and purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained approval certificates from local government commerce departments on or after June 1, 2007 but who did not register with the MOFCOM. This Notice was later replaced by the Notice of the State Administration of Foreign Exchange on Issuing the Provisions on the Foreign Exchange Administration of Domestic Direct Investment of Foreign Investors and the Supporting Documents (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的的通知) issued on May 11, 2013. See “*Regulation — Shareholder loan*”.

On April 11, 2008, the State Administration of Taxation issued a new Notice Concerning the Prepayment of the Enterprise Income Tax for Property Developers (國家稅務總局關於房地產開發企業所得稅預繳問題的通知). This notice covers residential houses, commercial houses, fixtures, supporting establishments or other development products, developed and constructed by property developers and presold before they were completed. The anticipated profit shall be calculated on the basis of the anticipated profit margin by quarter (or month), and shall then be included into the total taxable income to prepay. The adjustment shall be conducted after the completion of the products and the settlement of the assessable cost of the products.

On December 22, 2009, the Ministry of Finance and State Administration of Taxation issued a Notice on Adjusting the Business Tax Policies on Individual Housing Transfer (財政部、國家稅務總局關於調整個人住房轉讓營業稅政策的通知). Effective from January 1, 2010, the notice stipulates that any individual who sells non-ordinary residential housing within five years of the original purchase date, the business tax thereon shall be collected on the full sale price. Where any individual sells non-ordinary residential housing more than five years after the original purchase date or sells an ordinary housing unit within five years after the original purchase date, the business tax thereon shall be collected on the basis of the difference between the sale price and the original purchase price. Additionally, where any individual sells an ordinary housing unit more than five years after the original purchase date, it shall be exempted from business tax. This notice was replaced by the Notice on Adjusting the Business Tax Policies on Individual Housing Transfer (the “**New Notice**”) issued by the Ministry of Finance and State Administration of Taxation (財政部、國家稅務總局關於調整個人住房轉讓營業稅政策的通知) on January 27, 2011. Under the New Notice, the sale of an ordinary housing unit or non-ordinary residential housing within five years after the original purchase date, results in the business tax being collected on a full sale price. For the sale of non-ordinary residential housing more than five years after the original purchase date, the business tax thereon shall be collected on the basis of the difference between the sale price and the original purchase price. For the sale of ordinary housing unit more than five years after the original purchase date, it shall be exempted from business tax.

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

On March 8, 2010, the MLR issued the Notice on Strengthening the Supply and Supervision of Land Use for Real Estate Property (國土資源部關於加強房地產用地供應和監管有關問題的通知). The notice, among other things, provides that (1) land resource authorities shall strictly control the land supply for large-sized apartments and prohibit the land supply for villas; (2) the land use rights grant contract must be executed within ten working days after a grant of land has been mutually agreed upon. A down payment of 50% of the land grant premium shall also be paid within one month, from the execution of the land use rights grant contract with the remaining amount to be paid no later than one year after the execution of the land use rights grant contract.

On April 17, 2010, the State Council issued the Notice on Resolutely Curbing the Rapid Rising of the House Price in Certain Cities (國務院關於堅決遏制部分城市房價過快上漲的通知) according to which a stricter differential housing credit policy shall be enforced. It provides that, among other things, (1) for first-time family buyers (including the borrower, his/her spouse and his/her underage

children, similarly hereinafter) of apartments larger than 90 square meters, a minimum 30% down payment must be paid; (2) the down payment requirement on second-home mortgages was raised to at least 50% from 40%, reiterating that an extra 10% should be adopted on the interest rates for housing loans granted to such buyers (3) for those who buy three or more houses, even higher requirements on both down payments and interest rates shall be levied. In addition, the banks can suspend housing loans to buyers who own two or more housing units in places where housing prices are rising too rapidly and are too high, and housing supply is insufficient. According to the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy, promulgated by PBOC and CBRC (中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知) on September 29, 2010, commercial banks shall stop providing housing mortgages temporarily to any members of a family unit purchasing the third or subsequent residential housing. This also applies to non-local residents who fail to provide local one-year or longer tax payment certificates or social insurance payment certificates. According to the Circular of the General Office of the State Council on Issues concerning Further Works of Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作的有關問題的通知) dated January 26, 2011, the minimum down payment for the second house of a residential family using bank loans or housing provident fund loan is raised to 60% with a minimum lending interest rate of 110% of the benchmark rate. A local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family that cannot provide the local payment certificates of tax and/or social insurance for a certain period shall be suspended from purchasing commodity residential houses in the relevant administrative regions.

On September 29, 2010, the PBOC and CBRC issued the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (中國人民銀行及中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知), which, among other things:

- (1) prohibits commercial banks from granting or extending loans to property developers that violate laws and regulations such as (i) holding idle land; (ii) changing the land use and nature; (iii) delaying the commencement and completion of development; (iv) intentionally holding properties for future sale, for the purpose of new property development; and
- (2) increases the minimum down payment to at least 30% of the purchase price of the property.

On September 29, 2010, the Ministry of Finance, State Administration of Taxation and the MOHURD issued the Notice of Deed Tax on the Adjustment of Real Estate Transactions and Personal Income Tax Preferential Policies (財政部、國家稅務總局、住房和城鄉建設部關於調整房地產交易環節契稅個人所得稅優惠政策的通知), which provides that (1) only half of deed tax is required for first time buyers who purchase an ordinary residence that is the family's sole property; deed tax is also reduced to 1% for first time buyers who purchase an ordinary residence with less than 90 sq.m. floor area which is the family's sole property and (2) for tax payers who had sold their self-owned residential properties within a year and within that period bought a residential property again, their individual income tax will not be reduced or exempted.

On October 7, 2010, the Shanghai Municipal Government approved the Certain Opinions on Further Strengthening the Adjustment and Control of Real Property Market and Accelerating the Process of Housing Security Work (上海市政府批轉關於進一步加強本市房地產市場調控加快推進住房保障工作若干意見的通知) which specially provides that:

- (1) For a family that buys its first property with a GFA larger than 90 sq.m. and who apply for a house accumulation fund loan, a minimum of 30% down payment is required. The maximum

house accumulation fund loan shall be RMB600,000. For a family that buys its second property for the improvement of living conditions, a minimum of 50% down payment is required and the maximum house accumulation fund loan shall be RMB400,000. All the Housing Fund Management Centers shall suspend making loans to families that apply for second properties, which cannot be defined as an improvement of living-condition property. Families who buy three or more properties are also prohibited from receiving house accumulation fund loans.

- (2) No family (including both the husband and wife, and their minor children) can buy more than one additional property in Shanghai within a certain term.
- (3) LAT shall be levied according to the ratio of the average price of properties sold to the average price of all newly built properties in the same area of the previous year. If the ratio is less than 1.0, land value appreciation tax shall be levied at the rate of 2%. If the ratio is between 1.0 and 2.0, land value appreciation tax shall be levied at the rate of 3.5%. If the ratio is higher than 2.0, land value appreciation tax shall be levied at the rate of 5%.
- (4) For the real estate project which obtained its construction license after July 1, 2010, an adjustment on the standard for pre-sale is required. These residential housing projects should have completed the main structural works and passed for examination before they can be eligible for pre-sale, thus raising the standard for pre-sale.
- (5) Separate grants of planning permits, construction permits and pre-sale permits are restricted. The scale of construction and pre-sale of a real estate project should be no less than 30,000 sq.m. GFA. Real estate projects with less than 30,000 sq.m. GFA are required to obtain a construction planning permit, construction license and pre-sale permit at the same time.

On January 21, 2011, the State Council promulgated the Regulations on Expropriation and Compensation of Buildings on State-owned Land (《國有土地上房屋徵收與補償條例》), which replaced the Regulations for the Administration of Demolition and Removal of Urban Housing (《城市房屋拆遷管理條例》) and was effective on January 21, 2011. The new regulation provides that the PRC governmental authorities at the city or county level are responsible for house expropriation and compensation of the houses located at its administrative area. Property developers are prohibited from participating in relocation arrangements.

On January 26, 2011, the General Office of the State Council released the Circular on Issues Concerning Further Works of Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) which generally requires municipalities, provincial capitals and cities with high housing prices to implement restrictions on purchases for a specified period. In principle:

- (a) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one house.
- (b) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family that cannot provide the local payment certificates of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential house in the relevant administrative regions.

The Shanghai Municipal Government promulgated the Notice on Further Strengthening the Macroeconomic Control over Shanghai Real Estate Market (上海市人民政府辦公廳印發關於本市貫徹《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》實施意見的通知) on January 31, 2011 to implement the January 26, 2011 Circular. This Notice provides that:

- (i) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for more than one year (on a cumulative basis) within the most recent two years is limited to purchasing one house;
- (ii) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family that cannot provide evidence of local tax and/or social insurance payment for more than one year (on a cumulative basis) within the most recent two years shall be suspended from purchasing any other commodity residential house in Shanghai.

In addition to Shanghai, other main cities, including Wuhan, Foshan and Dalian, have also announced their new purchase limit policies which are similar to the requirements stated in the January 26, 2011 Circular.

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

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

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

On March 8, 2011, the General Office of CBRC issued the Notice on Promoting Housing Financial Services and Strengthening Risk Management (中國銀監會辦公廳關於做好住房金融服務加強風險管理的通知), which promulgates, among others, that banking financial institutions shall strictly observe the Notice on Resolutely Curbing the Soaring of Housing Prices in Some Cities (關於堅決遏制部分城市房價過快上漲的通知) and the Notice on Improving the Differential Housing Loan Policy (關於完善差別化住房信貸政策有關問題的通知), and reasonably determine, among other things, the proportion of down payment, loan interest rate in light of the risk status.

On March 16, 2011, the NDRC promulgated the Regulations on Clearly Marking Price in the Sale of Commercial Houses (商品房銷售明碼標價規定). According to such regulations, the sale of commercial houses will mark prices on a per unit basis, showing to the public the relevant fees that will be charged and other factors in relation to the sale price. In addition, commercial house operators will not charge any additional fees other than those clearly marked during the property sale. After the price is clearly marked, the developer cannot increase the sale price or charge any other fee.

According to the MOHURD, 608 out of 657 Chinese mainland cities provided their local residential market price growth targets for 2011 to the MOHURD by the March 2011 deadline. The Shanghai government's price target is typical of most cities' price targets. It aims to keep the rate of price increases for newly built residential property in 2011 below the growth rate of the city's GDP and per capita annual income of urban and rural households.

According to a statement released after the Central Economic Work Conference on December 12-14, 2011, the government would maintain property market regulation policies in 2012 with the objective of restoring reasonable housing prices, while encouraging the construction of ordinary commercial residential property to increase the effective housing supply and promote healthy development of the property market.

According to the 2012 People's Bank of China's Financial Markets Working Meeting (2012年中國人民銀行金融市場工作座談會) on February 2-3, 2012, the differential housing policy would be continued, including by ensuring sufficient loan availability to meet the needs of first-time home buyers. In addition, credit policy would aim to provide stronger financial support for the construction of social housing and ordinary commodity housing.

On February 15, 2012, the Ministry of Land and Resources issued a Notice on Strengthening work on the Priorities of Management and Regulatory in Real Estate 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), which provides that the provincial land and resources departments shall further perfect the system of examination on the announcement regarding the grant of the land use right and strengthen the supervision of residential land after supply, which requires such governmental authorities to timely discover and resolve the problems in relation to the idle land, unlawful transfer, unauthorized change of land use in nature and any violation of the terms of the land use right grant contract relating to the construction.

In second quarter of 2012, local governments began fine-tuning property policies in some cities. For example, the Guangzhou municipal government announced it would allow some first-time home buyers to pay 20% down payment for home purchases funded by loans from the Housing Provident Fund. The Guangzhou municipal government aims to support first-time home purchases with the lowered down-payment requirement, and the new policy is limited to purchases of apartments with floor area no larger than 90 sq.m and limited to local residents who have contributed to the Housing Provident Fund. The loan amount is capped at RMB500,000 for individuals or RMB800,000 per

couples. Another example is the Yangzhou government which announced a home purchase incentive package that provides homebuyers with a subsidy for purchase of decorated flats. The subsidy is calculated based on the unit purchase price at set at 0.6% for flats sized up to 90 sq.m., 0.5% for flats sized 90-120 sq.m. or 0.4% for homes sized 120-144 sq.m. In Chongqing, the maximum loan amount that may be borrowed from the Housing Provident Fund was increased from RMB200,000 to RMB400,000 for an individual borrower, and from RMB400,000 to RMB800,000 for a household.

On June 1, 2012, the Ministry of Land and Resources (MLR) released the revised Rules on the Disposal of Idle Land (閒置土地處置辦法) (the “**2012 Amendments**”), which took effect on July 1, 2012 and replaced the rules issued on April 28, 1999. The 2012 Amendments do not radically alter, but are a reiteration and amplification of, the existing rules. Under the 2012 Amendments, “idle land” is defined as a plot of state-owned land designated for development purposes, the land user of which has failed to commence the construction project within one year after the commencement date of construction as set out in the compensable land use contract or the allotment decision. Further, the 2012 Amendments clarify that there exist two circumstances only under which land plots will be deemed idle where construction has been suspended for one year with either less than one third of proposed constructed area constructed, or less than one quarter of the proposed total investment invested. In cases where idle land is caused by “reasons attributable to government” or force majeure, under the 2012 Amendments, such land may be disposed of in a number of ways including: 1) extending the time limit by no more than an extra year; 2) changing the designated land use purposes or planning conditions; 3) assigning temporary use for up to two years; 4) bartering; 5) recovering the land use right under an agreement with the developer; and 6) other ways as agreed between the local authority and the developer. As to which option should be adopted under such circumstance, the 2012 Amendments provide that this should be subject to negotiation between the authority and the developer. In the event that a land plot is made to lie idle due to reasons other than “reasons attributable to government” or force majeure, the 2012 Amendments set the “idle surcharge” that developers may face at “20% of land grant premium or land allocation cost” if the land has remained idle for more than a year. Further, the 2012 Amendments affirm the position that the government has the right to recover the land without compensation if the land has remained idle for more than two years.

On July 19, 2012, the MLR and MOHURD promulgated an Urgent Circular on Further Strengthening the Administration of the Land and Consolidating the Positive Result of the Adjustment and Control over Real Estate Market (關於進一步嚴格房地產用地管理鞏固房地產市場調控成果的緊急通知) (the “**Urgent Circular**”). The Urgent Circular provides that the land and house administrative departments at the provincial, municipal and county level are to continue strict implementation of their adjustment and control policies in order to prevent a housing price rebound. According to the Urgent Circular, the area of granted land shall not exceed the prescribed maximum limit and the land shall not be transferred in the form of bundled or unconsolidated sale. The ratio of the residential land to plot area shall not be less than 1:1. The land grant contract regarding the residential project must provide that construction will commence within one year from the date of the land transfer and complete within three years of the commencement date. The Urgent Circular further provides that land users may not bid for land within a certain period if the land users: i) owe the land premium; ii) hold any idle land; iii) participate in speculative land dealing; iv) develop the land over its actual ability of development; or v) breach the land use right transfer contract.

To implement the Urgent Circular, Chongqing State-owned Land and Housing Administration Bureau issued a Notice on Further Strengthening the Administration of the Land and Consolidating the Positive Result of the Adjustment and Control over the Real Estate Market (重慶市國土房管局關於進一步做好房地產用地管理鞏固房地產市場調控成果的通知) on July 25, 2012. The General Office of

Shanghai Municipal People's Government also issued a Notice on Further Implementation of the Adjustment and Control Policies over the Real Estate Market (上海市人民政府辦公廳關於進一步嚴格執行房地產市場各項調控政策的通知) on July 26, 2012, which requires ongoing strict enforcement of the differential housing consumer credit policy, property tax reform and purchase restriction.

On February 20, 2013, The State Council announced in its executive meeting that China will strictly implement and improve housing market tightening measures and ensure that the policies remain steady. Five major policy directions (新國五條) (the “**National Five Measures**”) include:

- (1) Municipalities and provincial cities must report directly to the central government and announce to the public the annual price control targets to keep housing price stable.
- (2) The government must continue to curb speculation in the housing market. Cities that have imposed restrictions on the housing market must maintain their grip, while other cities in which home prices have soared too fast must introduce timely curbing measures. Experimental property tax reforms in Shanghai and Chongqing will be extended to more regions. However, it was not detailed in the National Five Measures when and how the pilot program would be expanded.
- (3) Land supplies for housing projects in 2013 will be ensured in order to guide market expectations. In principle, land supplies for residential projects should not be lower than the average for the past five years.
- (4) Construction of government-subsidized housing will be accelerated. The government aims to finish construction of 4.7mn affordable housing units and start construction of 6.3mn new units. By the end of 2013, migrant workers should be included in the housing programs of the cities where they work.
- (5) Several regulatory measures were re-emphasized, including commercial property pre-sale monitoring, credit management system of agents, and information system of personal housing.

As a follow-up to the National Five Measures, the General Office of the State Council promulgated the Circular 17 in February 26, 2013. Circular 17 provides that local government should perfect and improve work responsibility system for stabilizing house prices, and continue strictly performing commercial housing purchasing limitation policies, including purchasing limitation of newly built commercial housing and second-hand residential housing.

To implement Circular 17, the General Office of People's Government of Guangdong Province issued its Implementation Notice on Continuing Improvement of the Control in Real Estate Market (廣東省人民政府辦公廳轉發國務院辦公廳關於繼續做好房地產市場調控工作的通知) on March 25, 2013. The General Office of Shanghai Municipal People's Government promulgated its Implementation Notice on Continuing Improvement of the Control in the Real Estate Market (上海市人民政府辦公廳印發關於本市貫徹《國務院辦公廳關於繼續做好房地產市場調控工作的通知》實施意見的通知) on March 30, 2013. The General Office of Chongqing Municipal People's Government issued its Implementation Notice on Continuing Improvement of the Control in Real Estate Market (重慶市人民政府辦公廳關於繼續做好房地產市場調控工作的通知) on March 30, 2013. On November 18, 2013, the Wuhan Municipal Government issued the Notice on Further Strengthening the Control in Real Estate Market (關於進一步加強房地產市場調控工作的意見).

Pressed by sustained rapid growth in residential prices in Shanghai, the Shanghai Housing Bureau released additional property regulation policies on 8 November 2013, known as the “Shanghai Seven Measures 滬七條” (上海市政府進一步嚴格執行國家房地產市場調控政策相關措施). The new measures include: 1) increase residential land supply, especially for small- and medium-sized units. Total land supply target for 2013 is raised to 30% above the average of the past five years, and the

actual supply should not be lower than 10 million sq.m.; 2) raise minimum down payment for second home mortgages from 60% to 70% (in line with policy changes in Beijing and Shenzhen); 3) tighten HPRs and require two consecutive years of social security payment record for non-residents (previously only one year of payment record was required); 4) regulate the pre-sales activities and ensure that the residential price growth target for 2013 is met; 5) extend the coverage of affordable housing and lower the application criteria to cover more people; 6) more stringently enforce existing regulations and taxes, including the pre-collection of LAT and property tax; 7) strengthen the regulation framework.

On July 19, 2013, the PBOC announced certain measures to further liberalize China's lending interest rate effective from July 20, 2013, among which the most important is the removal of the lending rate floor, which was 30% below the benchmark rates. The floor on the benchmark mortgage rate will however remain to curb speculative demand on the property market and maintain a healthy development of the market.

On November 8, 2013, pressed by sustained rapid growth in residential prices in Shanghai, the Shanghai Housing Bureau released additional property regulation policies known as the "Shanghai Seven Measures" (上海市府進一步嚴格執行國家房地產市場調控政策相關措施). The new measures aim to: (1) increase residential land supply, especially for small- and medium-sized units. Total land supply target for 2013 is raised to 30% above the average of the past five years, and the actual supply should not be lower than 10 million sq.m.; (2) raise minimum down-payments for second home mortgages from 60% to 70% (in line with policy changes in Beijing and Shenzhen); (3) tighten HPRs and require two consecutive years of social security payment record for non-residents (previously only one year of payment record was required); (4) regulate the pre-sales activities and ensure that the residential price growth target for 2013 is met; (5) extend the coverage of affordable housing and lower the application criteria to cover more people; (6) more stringently enforce existing regulations and taxes, including the pre-collection of LAT and property tax; and (7) strengthen the regulation framework.

Rising disposable incomes

Average annual disposable incomes per capita of urban households increased at a compound annual growth rate of 12.3% between 2003 and 2013, rising from RMB8,472 to RMB26,955. Increased purchasing power is also demonstrated by the rising annual per capita consumption expenditure of city residents, which increased by a compound annual rate of approximately 10.8% between 2002 and 2012¹. Such increased purchasing power is a positive sign for the property market as it may be an indication that an increasing number of high-income people are entering the property market.

Urbanization

The pace of urbanization has been rapid. Between 2000 and 2013, China's urban population increased by more than 275 million, resulting in an urbanization rate of 53.73% in 2013. The China National Bureau of Statistics estimates that China's urbanization rate will reach 70% by 2050. If this materializes, it is expected to create greater demand for properties in the cities.

Housing Reform

Since its announcement in 1998, housing reform has been effective in increasing local real estate ownership levels. Prior to the reform, most people in China's urban areas were housed under the

¹ Data of 2013 are still not available yet.

welfare housing system in which the PRC government heavily subsidizes urban residents. However, under the reform such subsidized housing is being phased out and workers have been encouraged to buy their own houses, or pay rent at rates closer to prevailing market levels. This has contributed to greater demand for owner-occupied residential properties.

Residential mortgages

Since the commencement of housing reform, the mortgage market has grown rapidly as a result of policies that were implemented to encourage individuals to purchase their own properties. Although recently the PRC government has implemented policies to regulate residential mortgages in order to control the overheating of the PRC property market, as a general trend more individuals have been encouraged to take on mortgages to purchase properties.

We expect, in the long term, these five key components together will encourage a sustainable rate of growth in the real estate market which is anticipated to lead to stronger buyer confidence in the residential property market. This is also supported by the central government's intention to promote continued economic growth and an expectation that it will manage long term sustainable growth rates in the real estate market.

Key real estate markets

We have projects in five cities, all of which are among the leading property markets in China by investments completed in 2012.

The table below sets forth data for leading property markets in China:

City	Resident Population 2012	Urban Household Disposable Income Per Capita 2012	Urban	Real Estate Investment 2012	Real Estate Investment Growth between 2001 and 2012 ⁽¹⁾
			Household Disposable Income Per Capita Growth 2001-2012 ⁽¹⁾		
	(million)	(RMB)	(RMB billion)		
Shanghai ⁽³⁾	23.8	40,188	10.9%	238	12.3%
Chongqing ⁽³⁾	29.4	22,986	12.1%	251	26.0%
Wuhan ⁽³⁾	10.1	27,061	12.6%	157	29.9%
Dalian ⁽³⁾	6.9 ⁽²⁾	27,539	12.7%	140	25.4%
Foshan ⁽³⁾	7.3	34,580	9.4%	64	21.9%
Hangzhou	8.8	37,538	10.2%	160	24.7%
Beijing	20.7	36,469	10.8%	315	13.5%
Chengdu	14.2	27,194	13.6%	189	24.9%
Guangzhou	12.7	38,054	10.5%	137	12.2%
Shenyang	8.2	26,430	13.3%	194	31.8%
Shenzhen	13.0	40,742	8.6%	74	7.9%
Tianjin	14.1	29,626	10.1%	126	20.4%
Nanjing	8.1	36,322	12.8%	102	13.3%

Notes:

- (1) Growth is calculated on a compound annual average basis.
- (2) The population figure of Dalian is = 2012GDP/2012 per capita GDP.
- (3) Cities in which we have projects.

Shanghai property market

In recent years Shanghai has enjoyed rapid economic development, evidenced by the increase in GDP per capita reaching approximately RMB90,100 in 2013 according to the Shanghai Statistical Annual Report 2013. Investments in real estate have risen from RMB90.1 billion in 2003 to RMB282 billion in 2013, representing a compound annual growth of 12.1% over the period. In the same period, the GFA of residential projects under construction increased from 69.74 million sq.m. in 2003 to 81.26 million sq.m. in 2013. Despite the implementation of policies intended to cool the housing market, such as purchase restrictions and the differential housing loan policy, the average price of residential commodity properties in Shanghai increased by 9.0% in 2013, from RMB22,513 per sq.m. to RMB24,533 per sq.m.

Infrastructure developments and urban planning

The Shanghai Municipal Government has over the years made major and continuous efforts in improving the city's transportation infrastructure. Some examples of recent and future projects include:

- construction of the last remaining section of the middle ring road to enhance the connection between the inner and outer ring roads;
- the Shanghai government plans to expand total metro-line track length from 420 km in 2010 to about 600 km by 2015;
- the Shanghai-Shenzhen high-speed rail line opened on December 28, 2013;
- the Shanghai-Beijing high-speed railway line opened on June 30, 2011;
- government approval for the construction of additional bridges and tunnels crossing the Huangpu River;
- completion of the third phase of Yangshan Port in 2008; and
- opening of second terminals at Pudong International Airport in March 2008 and at Hongqiao International Airport in March 2010.

Huangpu district overview

Our Shanghai Taipingqiao project is located in the former Luwan District, which has now been merged into Huangpu District, one of the main CBDs of Shanghai. On June 8, 2011, the central government approved a plan to merge Luwan District with Huangpu District, with the aim to facilitate long-term development of both districts. The new Huangpu District covers an area of approximately 20.46 square kilometers and has a resident population of 0.70 million, or about 2.9% of the overall Shanghai population in 2012, based on the Shanghai and Huangpu Statistical annual report 2012. Huangpu is noted as one of the city's leading business and commercial districts. Part of the old French Concession is located within this district, and the district is characterized by many cultural sights and historical

buildings. It is served by efficient public transport, including Shanghai's subway system. Huai Hai Zhong Road is a major thoroughfare within the district and is a key commercial street with shops, shopping malls and department stores. Three other major commercial areas within the district are the Bund, Nanjing East Road and People's Square.

Hongqiao area overview

Our project, THE HUB, is located at Shanghai Hongqiao Transportation Hub, an important economic center of the Yangtze River Delta, which links Shanghai to the rest of China and the world. THE HUB is directly linked to the Shanghai High-speed Rail Terminal, Terminal 2 of the Shanghai Hongqiao International Airport, five underground metro lines, a long-haul bus station and the future Maglev terminal, making it a destination with one of the highest levels of accessibility in the world.

Hongkou district overview

Our Shanghai Rui Hong Xin Cheng project is located in the Hongkou District, a major shopping center located in the north-eastern part of Shanghai. According to the Shanghai Statistical Yearbook 2013, Hongkou District covers an area of approximately 23.48 square kilometers. Hongkou District has a resident population of approximately 0.84 million, about 3.6% of the overall Shanghai population in 2012. There are two major commercial areas in the district, Sichuan North Road retail area and the North Bund area. The Shanghai Municipal Government has ambitious plans to transform the North Bund area into a shipping hub, thereby establishing Hongkou District as an international shipping, commerce, residential and leisure area.

Yangpu district overview

Our Shanghai KIC project is located in the Yangpu District, which is a district located in the north eastern part of Shanghai. According to the Shanghai Statistical Yearbook 2013, Yangpu District covers an area of 60.73 square kilometers and includes several kilometers of waterfront alongside the Huangpu River. According to the Shanghai and Yangpu Statistical annual report 2012, Yangpu District has 1.3 million resident population, about 5.5% of Shanghai's population. The district possesses rich historical and cultural resources and is regarded as an intellectual hub of Shanghai with 14 major universities and colleges, 22 key state laboratories and 15 scientific research institutes. Within this district, growth is expected in the office segment, which reflects the district's emerging role as an education, research and development center.

Shanghai upper-end residential market

New residential developments in the established residential districts in central Shanghai are mainly targeted towards wealthy individuals who may be residents of Shanghai or investors from other parts of China, as well as foreigners who want to live or invest in Shanghai.

Luwan district, which has now merged with Huangpu District, is one of the major upper-end residential districts in central Shanghai. Due to the upper-end residential developments clustered around Shanghai Xintiandi such as Casa Lakeville (Phase 3 of Taipingqiao residential development), the average price reached RMB158,100 per square meter in 2012.

Shanghai upper-mid-end residential market

From 2007 to 2013, the seven-year period saw strong demand for upper-mid-end residential properties. This pattern is likely to continue due to Shanghai's growing and diversifying

economy-increasing flows of overseas and domestic investment, growing numbers of foreign and domestic migrants and rising incomes of local white collar workers. Rental demand has been fairly consistent and the negative impact associated with recent macro control policies is expected to be limited in the mid- to long-term as the market matures.

Shanghai Grade A/Premium office market

Traditional CBDs, such as Huai Hai Zhong Road (East and West), Nanjing West Road and People's Square continue to enjoy leading positions in the Grade A/Premium office market. Tenant demands differ quite significantly between the Puxi and Pudong office districts. More financial services companies are located in Pudong, while a large number of corporations and professional service firms, as well as consulates and foreign government representative offices, are located in the Puxi office districts.

The factors which are expected to continue to contribute to the continued growth in the demand for Grade A office space are:

- State Council approved Shanghai Pilot Free Trade Zone Scheme on July 3, 2013, which is expected to further strengthen the city's competitiveness and encourage the rapid development of the financial services, business services and retail distribution sectors;
- the establishment in, and relocation to, Shanghai of corporate headquarters by large domestic and multinational corporations; and
- the goals, endorsed by the State Council, of building Shanghai into a global hub for yuan trading, clearing, pricing and innovation by 2015 and an international financial center by 2020 as well as the associated policies that will accelerate financial services development.

Shanghai high-end retail market

The largest clusters of high-end retail accommodation in Shanghai are located in the retail districts of Nanjing West Road, the Bund and Huai Hai Zhong Road (adjacent to the Shanghai Taipingqiao project).

Chongqing property market

Chongqing is a major city in Southwest China, which is located at the east of Sichuan Province in the Sanxia (the Three Gorges) area on the middle and lower reaches of the Yangtze River. Chongqing is not only a commercial and industrial hub but also an inland transport hub. Chongqing is becoming a more open economy via Yuxinou rail road. According to the Chongqing Statistical annual report 2013, per capita GDP was RMB42,795 in 2013 with strong economic growth recorded from 2003 to 2013. It is also among the world's largest cities by population.

According to the Chongqing Statistical Annual Report 2013, investments in real estate have risen from RMB32.79 billion in 2003 to RMB301.3 billion in 2013, representing a compound annual growth of 24.8% over the period. In the same period, the GFA of projects under construction increased from 52.87 million sq.m. in 2003 to 262.52 million sq.m. in 2013.

Infrastructure developments and urban planning

According to the newest Chongqing Metro Plan, a total of 9 lines with a circle line will be constructed by 2020. Among them, Metro Lines 1, 2, 3 and 6 are expected to be completed by the end of 2013.

There are plans to construct another eight bridges over the Jialing River and another ten bridges over the Yangtze River by 2020. In addition, Yu-Li Railway (from Chongqing to Lichuan, Hubei province) opened on December 28, 2013, which added Chongqing into the High-Speed railway network throughout the country.

Yuzhong district overview

Our Chongqing Tiandi project is located in the Yuzhong District which is in the center of Chongqing and bordered by the Jialing River and the Yangtze River. It is the most affluent district and the political, trading and financial center of Chongqing. Yuzhong District is the most densely populated district in Chongqing. In 2012 it had a resident population of approximately 650,200, or about 2.2% of the total Chongqing resident population, according to the 2013 Population Survey.

Wuhan property market

Wuhan, located at the intersection of the Yangtze and the Han Rivers, is the capital of Hubei Province in central China and has developed into a major commercial and manufacturing center in China. According to the Wuhan Bureau of Statistics, Wuhan's per capita GDP reached RMB88,564 in 2013, representing a significant growth during the period 2002 to 2013. Total investment in real estate in Wuhan rose significantly from RMB13.25 billion in 2002 to RMB190.56 billion in 2013.

Infrastructure developments and urban planning

Our Wuhan Tiandi Project is adjacent to a station of the light rail system (Line 1), which runs through the downtown area on the western side of the river. The extension of the light rail to the northern Hankou Wholesale Market has been completed and will boost the commercial market of northern Hankou area. Line 2 (from Jinyintan to Optical Valley Square) has been in operation since December 2012. Two other metro lines (Line 3 and Line 4 Phase II) are under construction and scheduled for operation by 2015 and 2014, respectively, bringing the total urban track length to 220 km. There are seven bridges across the Yangtze River in Wuhan now and other four bridges are under construction which are all expected to be completed by 2014 to 2015. The 904-km Guangzhou-Wuhan High-Speed Railway Project was completed in 2008 and has reduced the travel time for passenger trains between these two major Chinese cities from ten hours to four hours. These infrastructure developments should further boost economic development in Wuhan.

Jiang'an district overview

The Jiang'an District, in which our Wuhan Tiandi project is located, is in the city center of Wuhan within the Hankou area. Hankou is the political, trading and economic center of Wuhan. Jiang'an District covers an area of 64.2 square kilometers. In 2012, Jiang'an had a resident population of about 921,700, or 9.1% of the overall Wuhan population, according to the Wuhan Bureau of Statistics.

Dalian Property Market

Dalian, located on the coast of Bohai Bay, is a major city of Liaoning Province and is recognized as a regional economic center in northeast China. Dalian's infrastructure such as port, airport and border facilities has developed rapidly and the city expects to become an international transportation and trade hub in China. With rapid growth over the past few years, the software and business process outsourcing industries in Dalian have been designated as one of its pillar industries by the Dalian city government. The Dalian city government seeks to develop Dalian into one of the major information technology and business process outsourcing (ITO/BPO) centers in China. According to the Dalian Statistical Annual Report 2013, per capita GDP was approximately RMB110,600 in 2013, as compared to RMB25,276 in 2002.

Investments in real estate have risen from RMB15.1 billion in 2003 to RMB171.0 billion in 2013, representing a compound annual growth of 27.5% over the period, according to the Dalian Statistics Bureau. In the same period, GFA of projects under construction increased from 14.0 million sq.m. in 2002 to 63.96 million sq.m. in 2013.

Infrastructure developments and urban planning

Dalian is planning to build three rapid transit metro lines. Metro Line No. 1 will link downtown Dalian with Hekou Bay, which is the location of the east site of our Dalian Tiandi project. Dalian has the largest cargo port in north east China and the busiest airport in north east China in terms of passenger transportation.

Lushun district and Ganjingzi district overview

Our project, Dalian Tiandi, is part of Dalian Software Park Phase II and located across two districts, namely Lushun district and Ganjingzi district. According to the Lushun and Ganjingzi District Statistical Bureaus, the Lushun district has a registered population of approximately 213,850, or 3.7% of the overall registered population in Dalian and the Ganjingzi District has a population of approximately 743,795, or 12.7% of the overall Dalian resident population. Dalian Software Park is one of China's eleven "National Software Industry Bases". In June 2007, Dalian municipal government launched the Lushun South Road Software Industry Belt project, in which Dalian Software Park Phase II is the core development. By the end of 2012, forty-eight Fortune 500 companies had an office in Dalian Software Park, including IBM, HP, Accenture, Panasonic, Sony, Hitachi, NTT, Oracle, AVAYA, NEC, Fidelity and BT. In 2012, Dalian Software Park realized an annual sales income of RMB506 billion, with an export value of US\$18 billion.

Foshan property market

Foshan, a city in central Guangdong province, is situated to the west of Guangzhou. According to the Foshan Statistical Annual Report 2013, Foshan had a resident population of approximately 7.30 million in 2013. The city experienced a high GDP growth from 2001 to 2013. In 2013, Foshan's GDP reached approximately RMB701.0 billion, as compared to RMB157.8 billion in 2003, representing compound annual average growth of 16.1%. Per capita GDP also grew from RMB21,958 to RMB96,084 over the same period. According to the Foshan Statistical Bureau, a total GFA of approximately 5,106,756 sq.m. of commodity residential properties was completed in Foshan in 2012, while a total GFA of approximately 7,053,628 sq.m. of commodity residential properties was sold in Foshan in 2012. The average selling price of commodity residential properties in Foshan in 2012 was RMB7,957 per sq.m..

According to the Foshan Statistics Bureau, investments in real estate have risen from RMB8.9 billion in 2003 to RMB74.5 billion in 2013, representing a CAGR of 23.7% during this period. Total sales of commodity residential properties has grown from RMB7.4 billion in 2001 to RMB56.1 billion in 2012, at a CAGR of 20.2%.

Infrastructure developments and urban planning

In April 2013, Foshan government launched a new urban planning guideline, the "Foshan City Overall Planning (2012-2020)". This planning guideline re-affirms the primary status of Foshan New Town (佛山新城) as a city center. The planning guidelines also aim to develop a "headquarters economy" and a services industry in Foshan New Town. Furthermore, the Metro Line 2 route, which connects

Chancheng district to the Guangzhou Southern Railway hub, is to start construction in 2014 and expected to complete by 2019. Among the 17 stations on Metro Line 2, 10 are in Chancheng district. Additionally, Zumiao and Donghua Zone are listed as key cultural relics and preservation sites, which may attract more tourists to our projects.

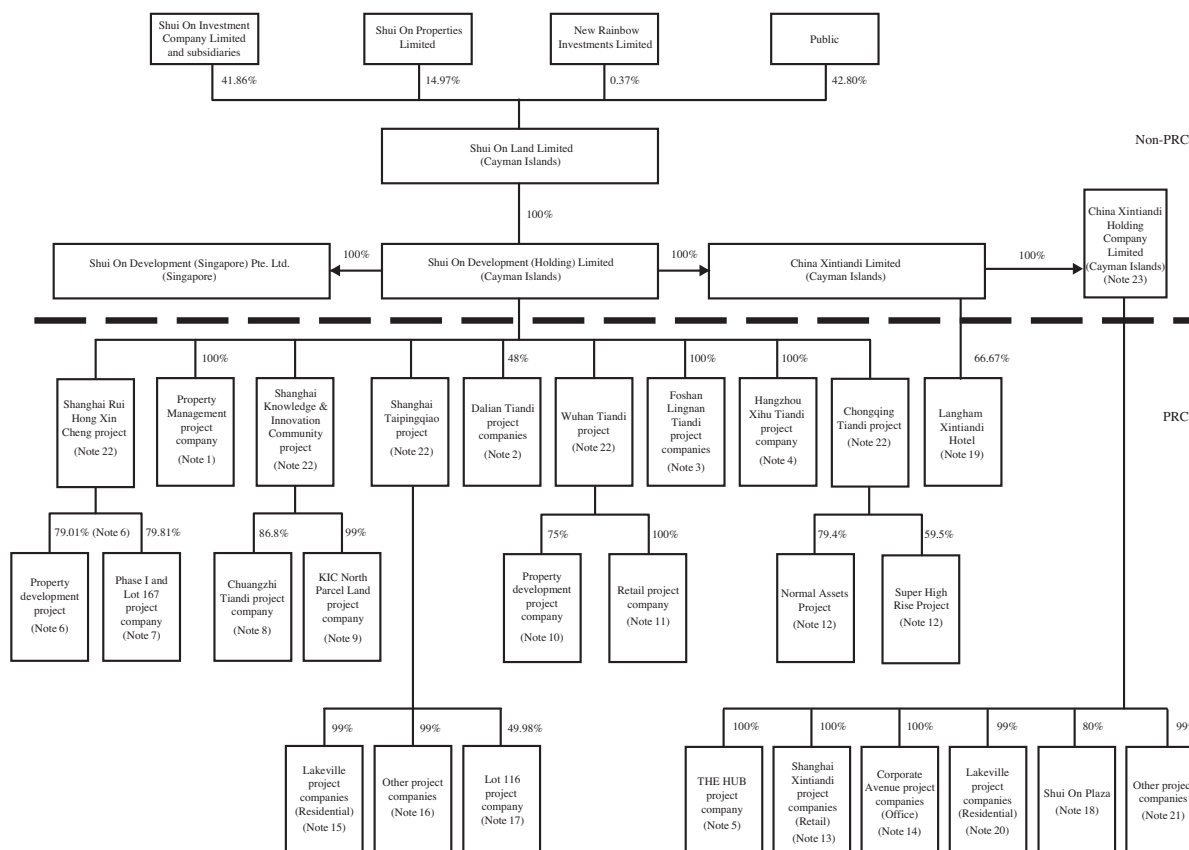
As a key feature of Foshan's urban planning, the "Urban Planning on Foshan's Center Axis" was released by the Government in March 2013. Starting in 2015, renewal works on the "three old" (old towns, old villages and old factories) along the Center Axis will accelerate and is due to complete by 2020. This urban development plan will significantly benefit Zumiao and its surrounding areas by removing old houses and improving public facilities. This in turn may increase the value of our properties.

Chancheng district overview

Our Foshan Lingnan Tiandi project is situated in central Chancheng district, at Foshan's traditional city core and public transportation hub. The Chancheng district functions as Foshan's cultural and commercial center, offering the city's foremost historical and cultural assets, including two national level protection sites — Donghuali and the Zumiao Temple — as well, the city's main retail areas are also in Zumiao Road and Jihua Road. Our project site is well-positioned within Chancheng district, as it encompasses Donghuali and Zumiao Temple at its boundaries and is adjacent to Zumiao Road. The site is at the heart of the local government's planned redevelopment zone, which will catalyze central Chancheng's development as a commercial zone — focusing on business, culture and tourism. According to the Chancheng statistical annual report 2012, the resident population of Chancheng was approximately 1.10 million in 2012, constituting 15.2% of Foshan's total resident population.

CORPORATE STRUCTURE

Set out below are the principal members of the Group and their respective principal businesses, and the effective shareholding structure of the Group as of March 31, 2014.



Notes:

- (1) The project company is Shanghai Feng Cheng Property Management Co., Ltd.*, which is incorporated in the PRC.
- (2) The project companies of Dalian Tiandi include Dalian Software Park Shuion Fazhan Co., Ltd.*, Dalian Software Park Shuion Kaifa Co., Ltd.* and their respective subsidiaries, each of which is incorporated in the PRC.
- (3)
 - (i) The project companies of Foshan Lingnan Tiandi are Fo Shan Shui On Property Development Co., Ltd., Fo Shan Yi Kang Property Development Co., Ltd., Fo Shan An Ying Property Development Co., Ltd., Fo Shan Yuan Kang Property Development Co., Ltd., Fo Shan Yong Rui Tian Di Property Development Co., Ltd., Fo Shan Rui Dong Property Development Co., Ltd., Fo Shan Rui Fang Property Development Co., Ltd., Fo Shan Rui Kang Tian Di Property Development Co., Ltd. and Fo Shan Shui On Tiandi Trading Co., Ltd., each of which is incorporated in the PRC.
 - (ii) Upon completion of the sale and purchase agreement dated November 29, 2011 between the Issuer and Mitsui on February 4, 2013, Fo Shan Yong Rui Tian Di Property Development Co., Ltd. (the project company relating to Foshan Lot 18) is effectively held as to 54.92% by us and 45.08% by Mitsui. Details of this transaction were set out in Shui On Land's announcement dated November 29, 2011 and the circular dated January 3, 2012 respectively.
 - (iii) Upon completion of the sale and purchase agreement dated August 22, 2012 between the Issuer and Mitsui on November 9, 2012, Fo Shan Shui On Property Development Co., Ltd. (the project company relating to Foshan Lots 6 and 16) is effectively held as to 55.9% by the Issuer and 44.1% by Mitsui. Details of this transaction were set out in Shui On Land's announcement dated August 22, 2012.
- (4) The project company of Hangzhou Xihu Tiandi is Hangzhou Xihu Tiandi Management Co., Ltd., which is incorporated in the PRC.
- (5) The project company is Shanghai Rui Qiao Property Development Co., Ltd., which is incorporated in the PRC.
- (6) The project company is Shanghai Rui Hong Xin Cheng Co., Ltd., which is incorporated in the PRC. The Group has a 79.01% interests in the property development project of Rui Hong Xin Cheng except for the non-retail portion of Lot 6 (Phase 5), where the Group has a 99% effective interest in it.

CORPORATE STRUCTURE

- (7) The project companies for Phase I and Lot 167 are Shanghai Rui Cheng Property Co., Ltd. and Shanghai Baili Property Development Co., Ltd.* respectively, which are incorporated in the PRC.
- (8) The project company is Shanghai Yang Pu Centre Development Co., Ltd., which is incorporated in the PRC.
- (9) The project company is Shanghai Knowledge and Innovation Community Development Co., Ltd., which is incorporated in the PRC.
- (10) The project company is Wuhan Shui On Tiandi Property Development Co., Ltd., which is incorporated in the PRC.
- (11) The project company is Wuhan Shui On Tian Di Trading Co., Ltd.*, which is incorporated in the PRC.
- (12) Both the Normal Assets Project and the Super High Rise Project are held by Chongqing Shui On Tiandi Property Development Co., Ltd., which is incorporated in the PRC.
- (13) The project companies include Shanghai Ji-Xing Properties Co., Ltd., Shanghai Bai-Xing Properties Co., Ltd., Shanghai Xin-tian-di Plaza Co., Ltd. and Shanghai Xing-Qi Properties Co., Ltd., each of which is incorporated in the PRC.
- (14) The project company is Shanghai Xing-Bang Properties Co., Ltd. (for Lot 110), which is incorporated in the PRC.
- (15) The project companies include Shanghai Lakeville Properties Co., Ltd. (for Lot 117) and Shanghai Jing-Fu Properties Co., Ltd. (for Lot 114), each of which is incorporated in the PRC.
- (16) The project company includes Shanghai Fu Ji Properties Co., Ltd. (for Lot 122-3), which is incorporated in the PRC.
- (17) The project company is Shanghai Jun Xing Property Development Co., Ltd. (for Lot 116), which is incorporated in the PRC.
- (18) The project company is Shanghai Jiu Hai Rimmer Properties Co., Ltd., which is incorporated in the PRC.
- (19) The project company is Shanghai Li Xing Hotel Co., Ltd., which is incorporated in the PRC.
- (20) The project company includes Shanghai Fu Xiang Properties Co., Ltd. (for Lot 113), which is incorporated in the PRC.
- (21) The project company includes Shanghai Le Fu Properties Co., Ltd. (for Lot 127), which is incorporated in the PRC.
- (22) Includes the companies shown underneath.
- (23) On January 23, 2014, the board of directors of the Issuer passed resolutions to designate China Xintiandi Holding Company Limited and its subsidiaries as “Unrestricted Subsidiaries” under the terms of the 7.625% Senior Notes, 8% Senior Notes, 9.75% Senior Notes, 10.125% Perpetual Capital Securities. These same entities are “Unrestricted Subsidiaries” under the terms of the Notes.

* For identification purposes only

BUSINESS

OVERVIEW

We are one of the leading property developers in the PRC and the flagship property company of the Shui On Group, which consists of SOCL and its subsidiaries. We engage principally in the development, sale, leasing, management and the long-term ownership of high-quality residential, office, retail, entertainment and cultural properties in the PRC, utilizing our expertise and experience in developing large-scale integrated property projects based on master plans that we have developed in conjunction with the local governments. We are actively involved in the city planning aspects of most of our projects. We believe our projects are characterized by the redevelopment and transformation of the neighborhoods and communities of the cities in which our projects are located. We strategically retain long-term ownership of certain commercial properties that we have developed, and are committed to enhancing the value of the projects on a continuing basis through comprehensive property management. Our past developments include the well-known restoration project, Shanghai Xintiandi, one of the landmarks in Shanghai.

We trace our origins to the Shui On Group, a Hong Kong-based privately-held diversified group that is primarily engaged in the real estate development, construction contracting and construction materials businesses. Under the leadership of our chairman, Mr. Lo, the Shui On Group has over 20 years of experience in property development in mainland China and over 40 years of construction and property development experience in Hong Kong. We were incorporated in the Cayman Islands on February 12, 2004 and our shares are listed on the Main Board of the Hong Kong Stock Exchange.

We focus on large-scale city-core development projects, primarily strategically-located, mixed-use properties and multi-phase developments with a blend of historic restoration and modern architecture. All of our projects manifest the “Total Community” concept. Endowed with a full range of modern facilities for residential, office, retail, entertainment and leisure, our projects provide a unique environment enabling a “Live-Work-Play” lifestyle. Our aim is to make each of these projects a focal point for the entire city in which it is located.

We expect that Chinese cities will further develop and transform due to the PRC government’s plan of continuing rapid economic development. The continued redevelopment of Chinese cities is in turn expected to generate significant economic value for China, demand for high-end residential and multi-phase developments and opportunities for well capitalized and reputable property companies. As Chinese cities are built into modern commercial and service centers, we believe they will become economic hubs to their surrounding areas, which will be increasingly connected by a modern transportation infrastructure. An integral part of the transformation of these cities is efficient and innovative master planning of land utilization. We believe that our business model, built upon large-scale, city-core development projects, will position us to benefit from the expected emergence of modern cities in China.

In mid-2009, we launched our First Three-Year Plan, which was designed to accelerate sustainable growth and maintain a closer balance between value creation for the longer term and cash generation in the short-to-medium term, the main objective of the First Three-Year Plan was to expedite project development and increase project completion rate consistently and continuously. However, we did not achieve our goal of delivering one million square meters of properties in 2012 due to market conditions. Various phases of developments in different projects have been deferred to optimize our inventory level and capital expenditure. For our Second Three-Year Plan, which will progressively unfold from 2013 to 2015, our overarching goals are the acceleration of the development of the cleared sites in Shanghai and other cities, the realization of value of our investment property portfolio for sustainable earnings growth and the deleveraging of our balance sheet.

As of December 31, 2013, we have obtained land use rights certificates, or have entered into land grant contracts or legally binding master agreements with district governments, for approximately 12.5 million sq.m. of landbank. These land parcels fall under our eight major multi-phase projects with an aggregate estimated leasable and saleable GFA of approximately 10.3 million sq.m. (of which approximately 7.5 million sq.m. is attributable to us) and approximately 2.2 million sq.m. of car parks and other public facilities. In order to develop the Dalian Tiandi project, we entered into a joint venture agreement with the SOCAM Group and the Yida Group. This project in Dalian city is expected to have approximately 3.4 million sq.m. of aggregate GFA, of which 48% will be attributable to us. Among such 3.4 million sq.m. of aggregate GFA, we have obtained land use rights certificates of two plots of land with an aggregate GFA of 3.1 million sq.m.. For the remaining plots of land, we plan to participate in the bidding or public auction, once they are ready for sale. We expect that the aggregate GFA on such remaining plots of land for the Dalian Tiandi project will be approximately 0.3 million sq.m.

As of December 31, 2013, we have eight major multi-phase projects in various stages of development located in the Chinese cities of Shanghai, Wuhan, Chongqing, Foshan and Dalian. Shanghai is located in the economically vibrant Yangtze River Delta, Wuhan is a major transportation hub located in central China and Chongqing is a major commercial and industrial center in southwestern China. Foshan, located in the Pearl River Delta, one of the major economic regions and manufacturing centers in China, is a major city in Guangdong Province and is close to Guangzhou city. Dalian, located on the coast of Bohai Bay, is a major city in Liaoning Province and a regional economic center in northeast China.

Current projects

- *The Shanghai Taipingqiao project* is a city-core development project consisting of office, residential, commercial, retail, hotel, entertainment and cultural properties in the heart of Shanghai. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 1.3 million sq.m., of which approximately 332,000 sq.m. had been sold and disposed of as of December 31, 2013. This project comprises:
 - a historic restoration zone (Lot 109 and Lot 112, or Shanghai Xintiandi), which has been open since 2001 and was fully completed in 2002 and a new shopping mall (Lot 113, or Xintiandi Style) was also completed in 2010;
 - a corporate headquarters zone (known as Corporate Avenue), of which Lot 110, or 1&2 Corporate Avenue, consisting of retail and office properties, was completed in 2004, and of which Lot 126 and Lot 127, or 5 Corporate Avenue and 3 Corporate Avenue, respectively, consisting of retail and office properties, with Lot 126 completed and subsequently disposed of and delivered to China Life Trustees Limited in December 2013 and Lot 127 expected to be completed in 2014;
 - an up-market residential zone, of which the first phase (Lot 117, or Lakeville) was completed in 2003, the second phase (Lot 114, or Lakeville Regency) was completed in 2006 and the third phase (Lot 113, or Casa Lakeville) was completed in 2010; and
 - a commercial zone, construction of which will commence following the completion of the relocation of existing residents.

The four zones referred to above are all located around a man-made lake and landscaped area which cover an area of approximately 56,000 sq.m.

In addition to the above, on September 9, 2011, we entered into an agreement with the Shui On Group to acquire 80% interest in Shui On Plaza, 24% interest in Xintiandi Plaza Business and 66.7% interest in Langham Xintiandi Hotel. The acquisition was completed on March 16, 2012 and Shui On Plaza and Langham Xintiandi Hotel, which we acquired majority interest in, were added to the portfolio of the Shanghai Taipingqiao project.

- ***The Shanghai Rui Hong Xin Cheng project***, also known as Shanghai Rainbow City, has been enlarged through our successful purchase of all the equity interests in Shanghai Baili Property Development Company Limited and the obtaining of the title with respect to the land use rights of Lot 167A and Lot 167B, Xingang, Hongkou District, Shanghai in June 2010. Upon completion, we expect this entire project to have a total leasable and saleable GFA of approximately 1.7 million sq.m. according to the new approved master plan, of which approximately 451,000 sq.m. had been sold as of December 31, 2013. Shanghai Rui Hong Xin Cheng will redevelop the existing residential neighborhoods into a mixed-use large-scale community. Shanghai Rui Hong Xin Cheng is located within the Inner Ring Viaduct of Shanghai with public transportation links, including its own dedicated metro station and major roads. Upon completion, we expect the project will comprise high rise residential buildings, commercial shopping complexes, offices and schools.
- ***The Shanghai KIC project***, also known as the Shanghai Chuangzhi Tiandi project, comprises retail, entertainment and sports facilities, office buildings and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 0.5 million sq.m., of which approximately 210,000 sq.m. had been sold as of December 31, 2013. This project is intended to inspire innovation and entrepreneurship in a “Lifestyle of Health and Sustainability” (LOHAS), supported by retail, entertainment and sporting facilities to create a “Live-Work-Play-Learn” lifestyle. The project is located close to 14 major universities and colleges in the northeast of downtown Shanghai, including some of China’s leading universities such as Fudan University, Shanghai University of Finance and Tongji University. The project will provide a “plaza area” comprising office buildings, learning centers, exhibition halls, conference and convention facilities, and commercial outlets. These are integrated and designed to function as facilities and spaces for recreation, leisure, education, training, culture, as well as, a “live-work” area and a mixed-use area comprising office buildings, retail shops and residential accommodations.
- ***THE HUB*** is an important development project comprising commercial, retail, exhibition and performance facilities leveraging on the traffic and convenience of the Hongqiao Transportation Hub. Upon completion, we expect to have a total leasable and saleable GFA of approximately 282,000 sq.m. The project is situated adjacent to Hongqiao Transportation Hub, which we expect will become an important economic center of the Yangtze Delta and link Shanghai to the rest of the PRC. Based on the latest proposed development plan of the Shanghai government, the Hongqiao Transportation Hub is expected to be supported by a strong transportation network of an international airport, high speed inter-city trains, maglev train, subway lines and a highway network, which extends the one hour catchment population to 75 million people.
- ***The Wuhan Tiandi project*** is a city-core development project comprising retail, food and beverage and entertainment facilities, office buildings and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 1.4 million sq.m., of which approximately 386,000 sq.m. had been sold as of December 31, 2013. Located between Shanghai and Chongqing at the confluence of the Han River and the Yangtze River, Wuhan is a major transportation hub in inland China and is the capital of Hubei Province. The project comprises two main sites, Site A and Site B, which will include Grade A office buildings, retail facilities, hotel and residential properties.

- ***The Chongqing Tiandi project*** is a city-core development project comprising office buildings, exhibition and conference facilities, retail and entertainment outlets, hotels and residential properties. Upon completion, we expect this project to have a total leasable and saleable GFA of approximately 2.8 million sq.m., of which approximately 716,000 sq.m. had been sold as of December 31, 2013. The Chongqing Tiandi project is situated on a hillside on the south bank of the Jialing River, just upstream of the confluence of the Yangtze and Jialing Rivers. We expect this project will help support and service Chongqing's extensive manufacturing and service industries. Chongqing Tiandi will be integrated with Chongqing's nearby central business district via a light rail system and major roads. The main features, in addition to modern high-quality office buildings, are expected to include a commercial core comprising business facilities such as an exhibition center and luxury hotels, a large residential area, entertainment and cultural properties, as well as a man-made lake.
- ***The Foshan Lingnan Tiandi project*** is a city-core development project comprising office, retail, hotel, cultural facilities and residential properties. The project is expected to have nearly 1.5 million sq.m. of leasable and saleable GFA of which approximately 98,000 sq.m. had been sold as of December 31, 2013. The project is planned for development in five phases over a period of 10 years. Besides our recent strategic partnership with Mitsui (see "*— Forging and building on strategic partnerships*"), we may also invite other strategic partners to co-invest in this Foshan Lingnan Tiandi project if, and when, suitable opportunities arise, but no definite plans or terms have been fixed.
- ***The Dalian Tiandi project*** is a development consisting of software offices, residential and commercial properties, training centers, hotels and an area of a Shanghai Xintiandi type development. Upon completion, we expect this project to have an aggregate leasable and saleable GFA of approximately 3.1 million sq.m., subject to our success in acquiring the land with an expected GFA of 0.3 million sq.m. through competitive bidding process. As of December 31, 2013, approximately 109,000 sq.m. had been sold. We have a 48% interest in the Dalian Tiandi project. Our joint venture partners are the Yida Group with a 30% interest and the SOCAM Group with a 22% interest. Dalian, located on the coast of Bohai Bay, is a major city of Liaoning Province and a regional economic center in northeast China.

The projects described above are multi-phase projects at various stages of development. While none of these projects are completed in their entirety, certain developments within these multi-phase projects have been completed. As of December 31, 2013, our completed developments included Shanghai Xintiandi, Lakeville, 1&2 and 5 Corporate Avenue, Lakeville Regency, Casa Lakeville, Xintiandi Style, Shui On Plaza and Langham Xintiandi Hotel, which form a part of the Shanghai Taipingqiao project; Phase 1, Phase 2, Phase 3 and Phase 4 of the Shanghai Rui Hong Xin Cheng project; KIC Village R1 and R2, KIC Plaza Phase 1 and Phase 2, KIC C2 and Lot 311 Phase 1 of the Shanghai KIC project; the above ground area of the Showroom Offices Tower 2 and Tower 3 in D17 of THE HUB; The Riviera I-IV and the Stage 1 of The Riviera V, 3, 4 and 5 Corporate Avenue (Lot B12-1), 2 Corporate Avenue (Lot B11-1/02 Phase 1), 6, 7 and 8 Corporate Avenue (Lots B12-3 and B12-4) and the retail and entertainment area, Chongqing Tiandi of the Chongqing Tiandi project; Phase 1, Phase 2 and Phase 3 of The Riverview, Corporate Centre 5 (Lot A5), Wuhan Tiandi B9 and B11 and the retail and entertainment area, Wuhan Tiandi of the Wuhan Tiandi project; The Regency Phase 1 and Phase 2, The Legendary Phase 1 and Phase 2, Lot D, Lot 13b and the retail and entertainment area, a portion of Foshan Lingnan Tiandi of the Foshan Lingnan Tiandi project and a portion of Phase 1 of the Dalian Tiandi project.

We are one of the few leading property developers with experience in managing large-scale, complex, long-term projects in China. We generally hold a portfolio of quality properties we have developed as strategic, long-term investments. To date, such portfolios comprise office, retail, hotel, entertainment and cultural properties.

In addition, we have a small development in Hangzhou, namely Hangzhou Xihu Tiandi project. After the disposal of the Phase 2 of this project in February 2011, the remaining part of this project comprised retail, food and beverage and entertainment facilities with a GFA of 6,000 sq.m. It was completed in 2003. The project is situated adjacent to Hangzhou's West Lake, one of China's most famous and appreciated areas of natural beauty.

The following table provides information relating to our landbank as of December 31, 2013:

Project	Approximate/Estimated leasable and saleable GFA							Group's interest
	Residential	Office	Hotel/serviced apartment		Sub-total	Clubhouse, carpark and other facilities	Total	
	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	
Completed properties								
Shanghai Taipingqiao	—	111,000	110,000	38,000	259,000	102,000	361,000	99.0% ⁽¹⁾
Shanghai RHXC	—	—	47,000	—	47,000	58,000	105,000	79.0% ⁽²⁾
Shanghai KIC	2,000	110,000	53,000	—	165,000	122,000	287,000	86.8% ⁽³⁾
THE HUB	—	57,000	1,000	—	58,000	2,000	60,000	100.0%
Hangzhou Xihu Tiandi	—	—	6,000	—	6,000	—	6,000	100.0%
Wuhan Tiandi	—	—	46,000	—	46,000	38,000	84,000	75.0%
Chongqing Tiandi	39,000	120,000	142,000	—	301,000	215,000	516,000	79.4% ⁽⁴⁾
Foshan Lingnan Tiandi	26,000	—	66,000	38,000	130,000	82,000	212,000	100.0%
Dalian Tiandi	64,000	207,000	41,000	—	312,000	113,000	425,000	48.0%
Subtotal	131,000	605,000	512,000	76,000	1,324,000	732,000	2,056,000	
Properties under development								
Shanghai Taipingqiao	87,000	55,000	27,000	—	169,000	92,000	261,000	99.0% ⁽¹⁾
Shanghai RHXC	203,000	—	99,000	12,000	314,000	112,000	426,000	79.0% ⁽²⁾
Shanghai KIC	—	94,000	6,000	23,000	123,000	46,000	169,000	99.0% ⁽³⁾
THE HUB	—	49,000	130,000	45,000	224,000	114,000	338,000	100.0%
Wuhan Tiandi	144,000	232,000	110,000	61,000	547,000	186,000	733,000	75.0%
Chongqing Tiandi	171,000	411,000	189,000	25,000	796,000	211,000	1,007,000	79.4% ⁽⁴⁾
Foshan Lingnan Tiandi	170,000	—	110,000	—	280,000	108,000	388,000	100.0% ⁽⁵⁾
Dalian Tiandi	479,000	207,000	171,000	46,000	903,000	296,000	1,199,000	48.0% ⁽⁶⁾
Subtotal	1,254,000	1,048,000	842,000	212,000	3,356,000	1,165,000	4,521,000	
Properties for future development .								
Shanghai Taipingqiao	166,000	174,000	118,000	38,000	496,000	44,000	540,000	99.0%
Shanghai RHXC	454,000	272,000	187,000	—	913,000	11,000	924,000	79.0% ⁽²⁾
Wuhan Tiandi	283,000	34,000	92,000	10,000	419,000	4,000	423,000	75.0%
Chongqing Tiandi	780,000	25,000	91,000	78,000	974,000	218,000	1,192,000	79.4%
Foshan Lingnan Tiandi	377,000	450,000	125,000	80,000	1,032,000	10,000	1,042,000	100.0%
Dalian Tiandi ⁽⁷⁾	503,000	867,000	383,000	42,000	1,795,000	—	1,795,000	48.0% ⁽⁶⁾
Subtotal	2,563,000	1,822,000	996,000	248,000	5,629,000	287,000	5,916,000	
Total landbank GFA	3,948,000	3,475,000	2,350,000	536,000	10,309,000	2,184,000	12,493,000	

BUSINESS

Notes:

- (1) The Group has a 99.0% interest in all the remaining lots, except for Shanghai Xintiandi, 1&2 Corporate Avenue, Lot 116, Shui On Plaza and Langham Xintiandi Hotel, in which the Group has an effective interest of 100.0%, 100.0%, 50.0%, 80.0% and 66.7% respectively.
- (2) The Group has a 79.8% interest in Phase 1, Lot 167A and Lot 167B of the Shanghai Rui Hong Xin Cheng project, a 99.0% interest in the non-retail portion of Lot 6 (Phase 5) and a 79.0% interest in all remaining phases.
- (3) The Group has an 86.8% interest in all the remaining lots, except for KIC Lot 311 in which the Group has an effective interest of 99.0%.
- (4) The Group has a 79.4% interest in Chongqing Tiandi, except for Lot B11-1/02 in which the Group has a 59.5% effective interest. The development of super-high-rise office towers is planned for Lot B11-1/02, for a leasable and saleable GFA of 519,000 sq.m..
- (5) The Group has a 100.0% interest in Foshan Lingnan Tiandi, except for Lot 6, Lot 16, and Lot 18. For Lots 6 and 16, the Group has a 55.9% effective interest and the joint venture partner, Mitsui has a 44.1% effective interest. For Lot 18, the Group has a 54.92% effective interest and Mitsui has 45.08% effective interest.
- (6) The Group has a 48.0% interest in Dalian Tiandi, except for certain lots in which the Group has a lower effective interest.
- (7) Dalian Tiandi is expected to have a landbank of 3.4 million sq.m. in GFA. As of 31 December 2013, approximately 3.1 million sq.m. had been acquired. The remaining GFA of approximately 0.3 million sq.m. is expected to be acquired through public bidding in due course.

OUR COMPETITIVE STRENGTHS

We believe that our success and future prospects are underpinned by a combination of the following competitive strengths:

Experienced management team and well-established corporate governance

Our management team has a number of key executives with over 20 years of property development experience in mainland China and over 30 years of construction and property development experience in Hong Kong. We benefit from the involvement of Mr. Lo in our property development projects, particularly during the origination and design stages of the projects. Mr. Lo heads the Board of Directors in deciding the Company's direction and to set corporate strategies. Our management team includes individuals who were initially transferred from the Shui On Group to form our Group's business, as well as staff that joined us from other reputable developers in Hong Kong, bringing their in-depth industry knowledge, developed strong technical capabilities and established project development expertise. We also conduct ongoing training and management programs for our employees to keep their knowledge current on industry standards and developments and to enhance their expertise in managing large and complex property developments to international standards.

We have also designed and established a number of management training programs to foster and develop the future generations of our management. These include our management trainee and cadet schemes, through which we seek to attract, train and retain the best graduates from premier schools, universities and education institutions in China. See "*— Employees — Training and Development*". We also sponsor members of our senior management to undertake further education (including master degree courses or non-degree courses) at leading international academic institutions, including Harvard University and the Wharton School, University of Pennsylvania.

Our highly experienced management team operates in accordance with what we believe to be international industry best practices and strong corporate governance standards. We have a remuneration committee, an audit committee, a nomination committee and a finance committee. We also have an ethics committee which is responsible for conflicts of interest, ethical business practices, fair dealings in business relationships and proper financial dealings.

We have received several awards in recognition of the Group's outstanding corporate governance, the recent of which are listed in the following table:

Year	Name of Award	Sponsor
2013	Corporate Governance Asia Recognition Award 2013 — Icon of Corporate Governance	Corporate Governance Asia
2012	Corporate Governance Asia Recognition Awards 2012 — The Best of Asia 2012	The Chamber of Hong Kong Listed Companies
2011	Hong Kong Corporate Governance Excellence Award 2011	Corporate Governance Asia
	Corporate Governance Asia Recognition Awards 2011 — The Best of Asia 2011	“The Asset” Magazine Best Practice Management Group

Tiandi — unique business model

We believe we are one of the leading property developers in China possessing end-to-end capabilities to develop and manage large-scale, multi-phase premium integrated residential and commercial properties, from master planning expertise, through the development cycle to ongoing property management expertise. We have a proven track record of developing and managing premium properties that comprise our city-core development projects. Our development projects are characterized by innovative designs and high-quality construction and finishing and usually become landmarks of the cities in which they are located. We aim to provide comprehensive integrated communities to offer residents and those who work in these communities an improved urban experience with greater convenience and numerous lifestyle benefits, by placing residences within easy walking distance of retail, commercial and office buildings while preserving and promoting local heritage and culture.

Quality landbank in high growth cities

Our well-established presence and highly regarded reputation in China has enabled us to gain access to quality landbanks. As of December 31, 2013, our landbank stood at 12.5 million sq.m. of total GFA (of which approximately 7.5 million sq.m. of leasable and saleable GFA is attributable to us) spread across nine development projects located in the prime locations of six major PRC cities: Shanghai, Hangzhou, Wuhan, Chongqing, Foshan and Dalian. Within each of these cities, our projects are in or near business or education centers. We expect demand for properties in these areas to be higher than in other locations, including less central locations in each of the respective cities. We believe our product mix of each project fits well within its respective location.

Strong track record and diversified contracted sales

We believe that we are one of the leading property developers in China with a superb track record. Our existing projects are located in high-growth cities and we have successfully built our “Tiandi” brand. Although we commenced our operation in Shanghai we have since expanded our business out of Shanghai to enable us to benefit from the strong economic growth in first- and second-tier cities in China. Leveraging our track record, we are able to gain strong pricing power for our properties. The ASP and its growth rate of our projects in Shanghai, Chongqing and Wuhan outperformed the respective city average, demonstrating our pricing power and the recognition of the established “Tiandi” model.

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The following table sets out the ASP of our projects as compared with the ASP of their respective cities.

Project	Shui On Land			City Average ⁽¹⁾				
	2013 Contracted ASP	2012 Contracted ASP	ASP Growth Rate	2013 City Centre ASP	2012 City Centre ASP	ASP Growth Rate	10-year GDP Growth Rate	2013 GDP per Capita
	RMB per sq.m.	RMB per sq.m.	%	RMB per sq.m.	RMB per sq.m.	%	%	RMB per capita
Shanghai				56,859 ⁽³⁾	58,853 ⁽³⁾	-3.4	10.7	90,100
				24,533 ⁽⁴⁾	22,513 ⁽⁴⁾	9.0		
- Taipingqiao	—	158,100	—					
- Rui Hong Xin Cheng	46,600	40,000	16.5					
- KIC Residential	38,600	37,900	1.8					
Wuhan Tiandi				8,331	7,719	7.9	13.9	88,564
- Site A Residential	—	37,300	—					
- Site B Residential	23,100	22,000	5.0					
- Site B Retail	45,000	—	—					
Chongqing Tiandi				7,327	6,645	10.3	14.1	42,795
- Residential ⁽²⁾	12,300	12,700	-3.1					
- Retail	40,300	—	—					
Foshan Lingnan Tiandi				9,609	8,829	8.8	15.4	96,084
- Low/mid/high-rises	17,100	15,400	11.0					
- Townhouses	38,600	40,500	-4.7					
Dalian Tiandi	11,500	11,200	2.7	12,990	12,489	4.0	14.6	110,600

Notes:

- (1) Source: City Statistics Bureau
- (2) Average selling price of Chongqing residential sales is based on net floor area (rather than GFA), a common market practice in the region.
- (3) Within inner-ring road
- (4) Overall Shanghai

Growing investment property portfolio

Our investment properties have prime city center locations and generate growing rental income for us. As of December 31, 2013, our investment property portfolio (including hotel but excluding properties for self-use) was approximately 922,000 sq.m. of leasable GFA. The carrying value of these completed investment properties (excluding hotel and self-used properties) was approximately RMB29,191 million and the Shanghai portfolio accounted for 75% and Wuhan, Chongqing and Foshan portfolio accounted for the remaining 25%.

Prudent financial management

Our focus on large-scale developments provides us with a number of strategic and operational benefits, including:

- The development of earlier phases of a multi-phase development often enhances the desirability of properties in the surrounding area, as it provides us with an opportunity to demonstrate to the market our appealing concept and the possibility to further improve our concept in the following phases. This enhances the value of our projects and reduces our development risk;
- Mobilization of construction equipment for a subsequent phase of an existing site can be accomplished more quickly and cheaply than relocating plant, equipment, staff and sales offices and display apartments to a new site; and
- Cost efficiencies, particularly in terms of procurement of materials and in negotiating construction contracts and optimization of our utilization of plant and equipment, personnel resources and information systems.

Our management has over 30 years of construction and property development experience during which time we have developed and adopted a systematic and disciplined approach to cost identification, control and management. We have developed cost accounting and management reporting systems and adopted cost control systems to enable us to track costs against set budgets. To maximize cost benefits and the quality of our services, we have established strategic partnerships with capable consultants, contractors and suppliers.

STRATEGY

In response to the need for balancing value creation and cash flow in a volatile global business environment, together with our vision to be the premier and most innovative property developer in China, we plan to implement the following strategies:

Standardization and customization to achieve efficiency

Standardization includes synchronizing best practice, standards and the operating systems of project teams and centralizing procurement, product design and layouts through formalized strategic partnerships with key architects, consultants, contractors and suppliers. Standardization of product design, technical specifications and layout plans has shortened the development cycle and construction time with better quality assurance, enabling us to expedite our construction works and to achieve targets.

In order to provide better quality and differentiated products to end-users, we offer different tiers of customization across all of our projects to appeal to the tastes and needs of different market segments, from sophisticated high-end units, to communities that feature integrated assisted living and medical services that are specifically targeted at senior citizens.

Decentralized decision-making and project-based management

In order to facilitate project teams to make timely, front line decisions about product development, construction management, sales and marketing and leasing, we initiated decentralization to allow greater autonomy for the project teams to make these decisions so that our projects are not only of the highest quality but also financially self-sufficient. At the central level, the corporate head office retains responsibility for financial management and capital allocation, as well as formulation of corporate development strategies. In January 2014, the Group reorganized its senior management

structure and realigned key corporate management functions under each Executive Director. Each project board will manage the overall execution of the project, monitor day-to-day management and operations and be responsible for development and business results of the project, in accordance with the principles and guidance set by the corporate head office. To ensure strategic uniformity across the project boards and corporate headquarters, Mr. Lo will initially chair all project boards. With this simplified management structure, we seek to execute our objectives more quickly and with greater precision, encourage proactive and independent initiatives and focus on delivering results.

Leveraging China Xintiandi to respond quickly to development opportunities and add value to our portfolio

In March 2013, CXTD Holding began operations as a separately managed, wholly owned subsidiary of the Group. See “*Summary — Proposed Spin-off of China Xintiandi and Brookfield Investment*” for more information. CXTD Holding is positioned as a premium commercial property owner, operator and manager in affluent urban areas of China while Shui On Land operates as a developer focusing on property development and property sales of residential and commercial properties. Going forward, CXTD Holding will focus on (i) creating a multi-faceted operating platform that enriches districts and drives business benefits while adding value to the portfolio; (ii) creating commercial communities; (iii) focusing on content and experiences that add the most economic value to real estate assets; and (iv) undertaking asset enhancement initiatives to grow rental yield. By separately managing these two companies, we believe that each company will be better able to focus on their distinctive strengths, act swiftly to seize strategic opportunities and pursue active asset management strategies that maximize the returns of their core assets.

Achieving and maintaining geographic diversity and a well-diversified business mix between properties for sale and investment properties and minimize development risk

The locations and scope of our projects help us achieve turnover, geographic and product diversity. We have a geographically diverse project portfolio located in Shanghai, Wuhan, Chongqing, Foshan and Dalian and will continue to develop master-planned integrated communities in first- and second-tier cities throughout China within three major categories:

- City center master-planned communities — with the encouragement of municipal governments, we are considering opportunities to redevelop city center communities without the additional burden of resident relocation to build “Tiandi”-style comprehensive integrated communities;
- Transportation hubs — leveraging our experience with THE HUB, we are actively seeking similar opportunities for future project development in areas targeted for major economic development and also benefit from comprehensive transportation facilities; and
- Knowledge communities — offering integrated, multi-functional environments, which place a strong emphasis on education, technology, culture, research and business incubation.

We will continue to maintain a spread of our development sites to limit earnings volatility from potential regional property market fluctuations and to allow us to enjoy regional growth upsides.

Our projects are typically completed in several phases and each project may contain properties that range from those for which we have entered into master agreements but where construction work has not yet begun, to fully completed properties for which land use rights have been granted, sales have commenced and retail and office space has been leased.

In addition, an important part of our long-term business strategy is to achieve and maintain a diversified earnings base balanced between development activities, which generate profits primarily from the sale of completed residential projects or other assets, and investment activities, which consist predominantly of office and retail assets retained by us to generate recurring income and long-term capital gains. We intend to continue to pursue turnover, product and geographical diversification, together with a sequencing of development phases, with a view to achieving and maintaining a well-diversified earnings base.

Forging and building on strategic partnerships

Strategic partnership continues to be one of the pillars of our long-term business strategies to give synergies to the project developments. We have entered into agreements with Mitsui for the sale and purchase of certain issued share capital (and related shareholder's loan) in respect to certain properties of the Dalian Tiandi project and Foshan Lingnan Tiandi project to leverage Mitsui's contribution in attracting Japanese buyers, tenants and other participants. We have also entered into a strategic partnership with Brookfield with respect to CXTD Holding and we expect that Brookfield's diverse property development expertise and global best practices will offer unique insights as we explore commercial property investment opportunities in China. We will continue to look for appropriate strategic partnership opportunities that serve to accelerate returns from our projects, diversify our risks and enhance cash flow. This strategy brings synergies to us by tapping the expertise and know-how of prospective partners.

OUR PROPERTY PROJECTS

We have eight major multi-phase projects at various stages of development. Four are located in Shanghai, and one in each of Wuhan, Chongqing, Foshan and Dalian.

Our property projects take a number of years to complete and we classify each project into three categories according to their stage of development:

- **Completed properties:** Completed properties are projects for which construction of all constituent buildings has been completed and that are available for lease or sale. As of December 31, 2013, the total GFA of our completed properties is approximately 2,056,000 sq.m., of which approximately 1,549,000 sq.m. of GFA is attributable to us;
- **Properties under development:** Properties under development are incomplete property projects that are under construction or design and are in the delivery pipeline. As of December 31, 2013, the total GFA of our properties under development is approximately 4,521,000 sq.m., of which approximately 3,159,000 sq.m. of GFA is attributable to us; and
- **Properties held for future development:** Properties held for future development are properties under planning or under relocation. They represent projects for which we have entered into a legally binding master agreement or similar arrangement with, or which we have been awarded following a competitive tender by the relevant regulatory authorities, and for which we have started planning but not relocation or construction. As these properties are still at the planning stage, the details of the development plans or estimated GFAs in this Offering Memorandum reflect our current design and expectations only, and are subject to change and approvals by the relevant government authorities. As of December 31, 2013, the total GFA of our properties held for future development is approximately 5,916,000 sq.m., of which approximately 4,434,000 sq.m. is attributable to us.

The total landbank consists of the above-mentioned three categories of properties. Generally, it takes a total of approximately 36 months to complete a lot for a project once construction commences.

Our major projects in Shanghai

We have four projects in Shanghai, namely Shanghai Taipingqiao project, Shanghai Rui Hong Xin Cheng project, Shanghai KIC project and THE HUB.

Shanghai Taipingqiao project

Description

The Shanghai Taipingqiao project is a city-core development project. The planning of the Shanghai Taipingqiao project adopts an integrated approach to urban planning, with an emphasis on the restoration of historic buildings and the establishment of an integrated community. At the center of the project is one of the largest man-made lakes in the center of Shanghai with a surface area of approximately 12,000 sq.m., and a park which covers an area of approximately 44,000 sq.m. with an underground car park which has approximately 230 spaces. When completed, we expect the Shanghai Taipingqiao project to comprise a GFA of approximately 750,000 sq.m. of office, retail, entertainment, hotels, serviced apartments and cultural space, in addition to a GFA of approximately 506,000 sq.m. of high-end residential properties, including approximately 332,000 sq.m. of GFA sold and disposed of as of December 31, 2013.

Master planning

The Shanghai Taipingqiao project is located in the city center of Shanghai. A number of domestic and multinational corporations have offices nearby and important transport lines, such as the South-North Viaduct and the Inner Ring Viaduct, and Shanghai's Metro Line no. 1, no. 8 and no. 10, run through this area. The project is just south of Huai Hai Zhong Road, one of Shanghai's principal commercial streets. This section of Huai Hai Zhong Road is a prime office location, with a number of Grade A office towers.

In December 1996, Shui On Properties Limited, a company of the Shui On Group, entered into a master agreement with the Luwan District¹ government in relation to the development of the Shanghai Taipingqiao project.

Under the terms of the master agreement, the development of the site will be carried out by a Sino-foreign equity joint venture in which Shui On Properties Limited or any of its subsidiaries holds a 90% to 95% interest and a Chinese partner entrusted or designated by the Luwan District¹ government holds a 5% to 10% interest. We acquired our interest in the equity joint venture from the Shui On Group in April 2004. In connection with that acquisition, Shui On Properties Limited undertook to exercise all of its rights under the master agreement for our benefit and as we direct, pursuant to a deed of undertakings dated April 29, 2004.

Pursuant to the Taipingqiao master agreement, the parties commissioned the international planning and urban design architectural firm Skidmore, Owings & Merrill to develop a master development plan for the Taipingqiao area. The last revised plan was approved by the Shanghai Municipal Planning Bureau in September 2005.

The first phase of the Shanghai Taipingqiao project consisted of the historic restoration zone and construction of the lake and park area and part of the up-market residential zone. Included in this

¹ Luwan District had merged with Huangpu District in June 2011.

phase is the northern part of Shanghai Xintiandi (Lot 109), which has been open since mid-2001, and Lakeville (first phase of the high-end residential zone), which was completed in 2003. Substantially all of the retail spaces in the northern part of Shanghai Xintiandi have been leased and all of the residential units of Lakeville were sold following the completion of Shanghai Xintiandi.

The southern part of Shanghai Xintiandi (Lot 112) consists of a four-story shopping mall and a six-story boutique hotel known as 88 Xintiandi. We completed the construction of the shopping mall and 88 Xintiandi in 2002, and commenced operations in the same year.

We commenced pre-sales of the second phase of the residential zone, Lakeville Regency, in the first quarter of 2006. We commenced pre-sales of the third phase of the residential zone, Casa Lakeville, in June 2008. The relocation of residents on Lot 126 and Lot 127 commenced in early 2007 and the relocation of residents on Lot 115 commenced in December 2009. In addition, the relocation of Lot 116 began in November 2010.

On June 29, 2007, the Issuer entered into a legally binding agreement with TPD for the sale of 49% of Portspin, which has the right to develop Lot 116 of the Shanghai Taipingqiao project. The transaction closed in July 2007. On December 17, 2008, TPD transferred all its shares in Portspin to Taipingqiao 116.

On September 9, 2011, we entered into an agreement with the Shui On Group to acquire 80% interest in Shui On Plaza, 24% interest in Xintiandi Plaza Business and 66.7% interest in Langham Xintiandi Hotel. The acquisition was completed on March 16, 2012.

On September 30, 2013, the Issuer entered into a swap agreement (the “**Swap Agreement**”) with Trophy Property GP Limited, as general partner of and on behalf of TPD and TPD’s subsidiaries (collectively, the “**Investor**”). Under the Swap Agreement, (i) the Issuer shall transfer to Taipingqiao 116 Development Company Limited (“**Taipingqiao 116**”) all of its shares in Portspin which holds Lot 116 of the Shanghai Taipingqiao project and (ii) the Investor shall transfer to the Issuer all of their shares in Fieldcity Investments Limited, Foresight Profits Limited, Score High Limited and Right China Limited (collectively, the “**Group Companies**”), which hold the Wuhan Tiandi project, the Shanghai Rui Hong Xin Cheng project and the Chongqing Tiandi project.

Simultaneously on September 30, 2013, the Issuer, Taipingqiao 116 and Portspin entered into a joint venture agreement (the “**JV Agreement**”) in relation to Portspin, pursuant to which, among other things, the Issuer would receive shares in Portspin upon completion under the Swap Agreement and the parties thereunder had agreed to manage the business of Portspin and its subsidiaries in accordance with the terms and conditions of the JV Agreement. See “*Related Party Transactions — Asset swap and joint venture agreement with TPD*”.

On December 4, 2013, the Issuer and Taipingqiao Holding Company Limited (“**Taipingqiao Holding**”) entered into a sale and purchase agreement with China Life Trustees Limited (acting as a trustee of China Life Insurance (Overseas) Co., Ltd.) pursuant to which, subject to the fulfilment of certain conditions precedent, China Life Trustees Limited agreed to purchase the entire share capital of Sinohink Holdings Limited (“**Sale Shares**”), which holds the entire issued share capital of Sinoco Limited, which in turn owns 99% equity interest of Shanghai Xing Qiao Properties Co., Ltd. (“**Shanghai Xing Qiao**”), the project company that owns and develops Lot 126 in the Shanghai Taipingqiao project. The Issuer further agreed to assign the intercompany loan to China Life Trustees Limited, which includes the total principal amount of RMB2,003 million and all interest accrued on any principal included therein, extended and/or to be extended by the Issuer to Sinohink Holdings Limited, among which the principal amount of RMB1,933 million has been provided and RMB70 million will be provided prior to the closing of the transaction (“**Intercompany Loan**”). Upon the closing of this transaction in December 2013, Sinohink Holdings Limited ceased to be a subsidiary

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of Shui On Land and China Life Trustees Limited became entitled to 99% attributable interests in Shanghai Xing Qiao. Taipingqiao Holding is entitled to exercise a call option to buy back the Sale Shares and the Intercompany Loan during certain periods of time within seven years after the closing of the transaction.

Project overview

The following table sets forth the development status of the Shanghai Taipingqiao project as of December 31, 2013:

	<u>Approximate/Estimated leasable and saleable GFA</u>							Group's interest
	Residential	Office	Retail	Hotel/ serviced apartment	Sub-total	Clubhouse, Carpark and other facilities	Total	
	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	
Completed properties								
Xintiandi	—	5,000	47,000	5,000	57,000	12,000	69,000	100.0%
1&2 Corporate Avenue, Phase I	—	76,000	7,000	—	83,000	16,000	99,000	100.0%
The Lakeville and Lakeville Regency	—	—	—	—	—	25,000	25,000	99.0%
Casa Lakeville and Xintiandi Style	—	—	27,000	—	27,000	22,000	49,000	99.0%
Shui On Plaza	—	30,000	28,000	—	58,000	8,000	66,000	80.0%
Langham Xintiandi Hotel	—	—	1,000	33,000	34,000	19,000	53,000	66.7%
Subtotal	—	111,000	110,000	38,000	259,000	102,000	361,000	
Properties under development								
3 Corporate Avenue, Phase II (Lot 127)	—	55,000	27,000	—	82,000	37,000	119,000	99.0%
Lot 116 ⁽¹⁾	87,000	—	—	—	87,000	55,000	142,000	50.0%
Subtotal	87,000	55,000	27,000	—	169,000	92,000	261,000	
Properties for future development								
Subtotal	166,000	174,000	118,000	38,000	496,000	44,000	540,000	99.0%
Total	253,000	340,000	255,000	76,000	924,000	238,000	1,162,000	

Note:

(1) See “*Related Party Transactions — Asset swap and joint venture agreement with TPD*”.

We completed construction of Lakeville in 2003, Lakeville Regency in 2006 and Casa Lakeville in 2010. The sold residential units together comprised an aggregate GFA of approximately 253,000 sq.m. as of December 31, 2013. Ownership of all units in these residential developments, and some car parking spaces, have been transferred to the individual owners. We have, however, retained the property ownership rights in relation to the clubhouses and the unsold car parking spaces.

Relocation of original residents

Pursuant to the relocation agreements entered into between us and the Luwan District¹ government, the Luwan District¹ government has appointed relocation companies to handle the relocation for the Shanghai Taipingqiao project. We are responsible for the costs of relocation. As of December 31, 2013, approximately 97% of households of residential Phase 4 (Lot 116) had signed relocation agreements. The relocation of Lot 127 has been completed and construction works commenced. See “*Risk Factors — Risks relating to our Business — For some of our development projects, we are required to relocate existing residents and pay relocation costs, and the relocation process may not be completed as planned*”.

Project details

The Shanghai Taipingqiao project blends the architecture and charm of “Old Shanghai” with modern features and amenities. The objective of the Shanghai Taipingqiao project is to revitalize the quality of the district’s living environment and infrastructure.

Historic restoration zone

The historic restoration zone, Shanghai Xintiandi, is a retail and entertainment area. The northern part of Shanghai Xintiandi has been open since mid-2001 and the southern part of Shanghai Xintiandi has been open since August 2002. Xintiandi, which means “New Heaven and Earth” in Chinese, features a mix of upscale, well known retail shops and boutiques, coffee shops, restaurants, sidewalk cafes, art galleries, a museum and entertainment, cultural and recreational facilities. Shanghai Xintiandi was designed to be a re-creation of a large area of old “Shikumen”, with stone-gated, courtyard houses with stone-framed entrances, an architectural symbol of early 20th century Shanghai. These old buildings, which are located throughout the site, were restored and integrated with modern buildings and feature historical and cultural characteristics. Shanghai Xintiandi has become popular with both locals and visitors.

The northern part of the Shanghai Xintiandi site features renovated or restored traditional stone buildings, or Shikumen houses, and consists primarily of speciality food and beverage, entertainment and retail facilities. The southern part of the Shanghai Xintiandi site consists of a multi-purpose entertainment and retail complex with a contemporary architectural design and a boutique hotel (88 Xintiandi). The central piazza running from north to south features landscaped open areas, outdoor cafes and show areas, which we believe introduces an element of action and vitality to the area and also serves as a link between the various areas within Shanghai Xintiandi. An underground car park with approximately 210 parking spaces has been constructed in the southern part of the Shanghai Xintiandi site. In addition, we have one clubhouse, one souvenir shop and one open-house museum located in the northern part of Shanghai Xintiandi.

Shanghai Xintiandi, which has a leasable and saleable GFA of approximately 57,000 sq.m., has been retained for rental purposes and, as of December 31, 2013, these rental units had been 97% rented. Our tenants include Blancpain, UME, I.T., Starbucks, TMSK, Paulaner, Va Bene, Shanghai Tang, Zen, Ye Shanghai and a lot of renowned retailers.

As an extension of Shanghai Xintiandi, the shopping mall in Lot 113, Xintiandi Style, was completed in September 2010 and held its grand opening ceremony in November 2010. Xintiandi Style, which has a leasable and saleable GFA of approximately 27,000 sq.m., achieved an occupancy rate of 88% as of December 31, 2013.

¹ Luwan District had merged with Huangpu District in June 2011.

Following the completion and opening of Langham Xintiandi Hotel and Andaz Hotel, we have re-positioned the retail shops along Taicang Road and upgrade the area to a destination of luxurious jewelry and watch boutiques. This new positioning will create a luxury shopping atmosphere along Taicang Road towards Hubin Road, thereby enhancing the high-end image of Taipingqiao area, attracting more affluent shoppers and facilitating the leasing of Lots 126/127 shopping mall.

Corporate headquarters zone

The corporate headquarters zone, known as Corporate Avenue, comprises properties built around the Taipingqiao lake and is adjacent to Shanghai Xintiandi. Corporate Avenue consists of Grade A office buildings with commercial and entertainment complexes, including high-end luxury retail stores designed to create a prestigious retail shopping corridor along the lakefront. The office towers serve as an extension to the commercial area along Huai Hai Zhong Road and are intended to capitalize on their proximity to the Huang Pi Nan Road and Xi Zang Zhong Road metro stations. Tenants in this area are to include major multinational and domestic corporations. We plan to retain and lease out all units in the corporate headquarters zone.

A portion of Corporate Avenue to the north of the Taipingqiao lake, 1&2 Corporate Avenue (also known as Lot 110), was completed in 2004. 1&2 Corporate Avenue consists of lakefront twin towers and a retail podium. The office portion has a GFA of approximately 76,000 sq.m. The twin towers feature art deco style architecture, characteristic of Shanghai in the 1930s. The towers are linked by retail facilities, with a GFA of approximately 7,000 sq.m.. The retail portion of 1&2 Corporate Avenue is intended to be part of the planned retail shopping corridor (referred to above). Our major multinational corporate tenants include PricewaterhouseCoopers, Amway, BHP, Eli Lilly, SONY and Pernod Ricard. As of December 31, 2013, 1&2 Corporate Avenue had achieved an occupancy rate of 94%.

5 Corporate Avenue (Lot 126) and 3 Corporate Avenue (Lot 127) are mixed retail and office developments around the Taipingqiao lake. We intend to target multinational and domestic corporations, major professional firms, financial institutions, consultants and selected high-end retailers as tenants of the office properties. The retail portion will serve as an extension of the lakefront shopping corridor and will feature retail outlets of luxury brands and specialty merchandise. Lot 126 was completed and subsequently disposed of and delivered to China Life Trustees Limited in December 2013. Lot 127 offers a GFA of approximately 82,000 sq.m. earmarked for office and retail space and its construction is expected to be completed in 2014.

Up-market residential zone

The up-market residential zone will be a multi-phase residential development, targeting high-income residents.

Lakeville (Lot 117). Lakeville is located at the junction of Zi Zhong Road and Ji Nan Road, southeast of Shanghai Xintiandi and south of the Taipingqiao lake and park. Lakeville consists of one detached villa, six townhouses and 277 residential units in residential buildings ranging from 8 stories to 23 stories. The apartment buildings have been built in a modified Old Shanghai style. Recreational amenities include a clubhouse and an indoor heated swimming pool. We completed construction of Lakeville in 2003 and have sold all of the residential units, comprising an aggregate GFA of approximately 48,000 sq.m..

Lakeville Regency (Lot 114). Lakeville Regency is adjacent to Lakeville and comprises 645 residential units in four high-rise and four low to medium-rise apartment buildings. Each of these buildings consists of two or three blocks. Lakeville Regency comprises 17 blocks in total. We completed the construction in September 2006. The total residential GFA of Lakeville Regency is approximately 127,000 sq.m., of which all had been sold.

Casa Lakeville (Lot 113). We commenced construction of residential units on Casa Lakeville in early 2007 and completed in 2010. Casa Lakeville has a total GFA of approximately 147,000 sq.m., consisting of approximately 78,000 sq.m. of residential units, 27,000 sq.m. of retail properties (also known as Xintiandi Style), 5,000 sq.m. of clubhouse and 37,000 sq.m. of car park and other facilities. The residential units in Casa Lakeville in Towers 1, 2, 9, 10, 11 and 12 of approximately 71,000 sq.m. were launched for pre-sales in phases starting in June 2008 and had all been sold and delivered to home buyers. We upgraded Casa Lakeville Towers 3 to 8 into luxury apartments (“**The Manor**”) in 2010 totaling 18 units or 7,000 sq.m., of which all had been sold. Due to the scarcity of luxury homes in the city center of Shanghai, the average selling price of The Manor reached RMB148,700 per sq.m..

Lot 116 and Lot 118. Relocation of Lot 116 is underway and as of December 31, 2013, 97% of residents had signed the relocation agreement. Lot 118 is being planned for future development and the relocation has not commenced yet. These lots will consist of high-end residential properties. We expect to commence construction of these lots progressively from 2014 onwards.

Lot 122-1/2. Lot 122-1/2 will consist of apartment properties and is located on the top of the metro station of Metro Line no. 8. We intend to sell part of the serviced apartments and to retain the rest of the building as an investment. We have entered into a land grant contract for Lot 122-1/2, and the construction of this lot will commence following the completion of relocation.

Commercial zone

The retail complex on Lot 122-3 is also located on top of a metro station and is in the traditional commercial district of Lao Ximen. These retail and entertainment outlets are designed to complement the residential and office buildings in the vicinity to create an important entertainment center in Shanghai. Construction of this lot will commence following the completion of the relocation of existing residents.

Shui On Plaza

Shui On Plaza is one of Shanghai’s most prestigious office buildings. It attracts tenants consisting mainly of major multinational corporations and domestic enterprises, including Pacific Department Store which occupies approximately 22,500 sq.m.. With 23 stories of Grade A offices, Shui On Plaza has won the “Bai Yu Lan” and “Lu Ban” Awards for high-quality building construction in Shanghai and the PRC, respectively.

Shui On Plaza is strategically located on Huai Hai Zhong Road and directly links to Huang Pi South Road Metro Station on Metro Line 1, one of the busiest Metro stations in Shanghai. It is situated in a strategic commercial and retail location, surrounded by flagship stores of luxury brands.

Langham Xintiandi Hotel

Langham Xintiandi Hotel is a luxury hotel that offers elegant and sophisticated suites, restaurants and health and event facilities. Langham Xintiandi Hotel has 357 rooms varying in size from 40 sq.m. to 345 sq.m. and 1,000 sq.m. of retail space. Its facilities include a 24-hour health club, a 25-meter indoor swimming pool and the Xintiandi Grand Ballroom, which boasts high ceilings and opulent décor. It also has retail pavilions that house the Shanghai flagship stores of Harry Winston, Breguet, Damiani and Chopard.

Langham Xintiandi Hotel is located conveniently in the heart of Shanghai’s entertainment hub adjacent to Huai Hai Zhong Road and Taicang Road, which we have positioned as a “luxury watch and jewelry street”. Shanghai’s underground rail network is nearby while foreign consulates, museums and key business districts are all within close proximity.

Shanghai Rui Hong Xin Cheng

Description

The Shanghai Rui Hong Xin Cheng project, also known as Rainbow City, is a city-core development project aimed at redeveloping existing residential neighborhoods into a mixed-use, sustainable, large-scale development including office, retail, hotel, entertainment, cultural and residential space. The Shanghai Rui Hong Xin Cheng project is located within the Inner Ring Viaduct of Shanghai and is served by three metro lines. The Shanghai Rui Hong Xin Cheng project comprises twelve land parcels, of which Lot 5 (Phase 1), Lot 149 (Phase 2), Lot 8 (Phase 3) and Lot 4 (Phase 4) have been completed as of December 31, 2013.

Master planning

The Shanghai Rui Hong Xin Cheng project is located in the Hongkou district in Shanghai close to several leading universities and the central business district. It is connected by Metro Lines no. 4, no. 8 and no. 10 to the other districts of Shanghai. There is a cluster of elementary, middle and high schools close to the Shanghai Rui Hong Xin Cheng project. In addition, pursuant to an agreement entered into between us, the Hongkou District government and Hongkou District Education Administration, a high school has been relocated to a site within the Shanghai Rui Hong Xin Cheng project. The master plan for the Shanghai Rui Hong Xin Cheng project divides the project into ten plots of land.

In June 2010, we completed the transaction to acquire a special purpose company that holds the development rights to two lots of land (Lot 167A and Lot 167B) with GFA of approximately 230,000 sq.m. according to the new approved master plan, for a total consideration of approximately RMB109 million. The two sites are located adjacent to the existing Shanghai Rui Hong Xin Cheng project and existing households on these two sites are subject to relocation. The acquisition enlarged the Shanghai Rui Hong Xin Cheng project to twelve plots of land.

Upon completion, the Shanghai Rui Hong Xin Cheng project will comprise a total leasable and saleable GFA of approximately 1.7 million sq.m. according to the new approved master plan, of which approximately 451,000 sq.m. of GFA had been sold as of December 31, 2013. A broad and landscaped avenue, Rui Hong Road, is planned to connect the Peace Park in the north and run through the site. The site will include high-rise residential buildings, commercial shopping complexes, offices and schools. One shopping complex has already opened and includes E-mart, a hypermarket chain, as a core tenant.

We did not enter into a master agreement for the Shanghai Rui Hong Xin Cheng project as we were granted the required land use rights for all lots of this project.

The Shui On Group completed the development of Lot 5, or Shanghai Rui Hong Xin Cheng Phase 1, in 2002, and sold all of the residential units by the end of September 2004. The remaining part of Shanghai Rui Hong Xin Cheng Phase 1, consists of retail shops, clubhouse, kindergarten and some office spaces. In February 2008, we acquired Shanghai Rui Hong Xin Cheng Phase 1 from SOCL for an aggregate consideration of HK\$154 million.

In June 2008, we completed the disposal of 25% of our interest in the Shanghai Rui Hong Xin Cheng project to Winnington Capital Limited (“**Winnington**”). We also granted Winnington an irrevocable call option to acquire a further 24% of our equity interest in the Shanghai Rui Hong Xin Cheng project,

exercisable from December 1, 2008 to December 31, 2008. The call option was not exercised during the period nor during the extended exercisable period agreed to in April 2009. On June 30, 2008, Winnington transferred all its shares in Foresight Profits Limited (“FPL”), a non wholly owned subsidiary of Shui On Land, to Elegant Partners Limited (“EPL”).

On June 20, 2012, the Issuer applied to FPL for the issuance of certain new shares of FPL for a total cash consideration of RMB951 million. EPL did not participate in subscribing to the new shares. The subscription was completed on June 25, 2012, following which, our equity interest in the enlarged issued share capital of FPL increased from 75.0% to 79.8%, while EPL’s equity interest in FPL was diluted from 25.0% to 20.2%. For further details, please refer to the announcement made by the Group on June 20, 2012, which is available on the website of the Hong Kong Stock Exchange.

Project overview

The following table sets forth the development status for the Shanghai Rui Hong Xin Cheng project as of December 31, 2013:

	Approximate/Estimated leasable and saleable GFA							Group’s interest
	Residential	Office	Retail	Hotel/ serviced apartment	Sub-total	Clubhouse, Carpark and other facilities	Total	
	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	
Completed properties								
The Palette 1	—	—	5,000	—	5,000	13,000	18,000	79.8%
The Palette 3	—	—	28,000	—	28,000	21,000	49,000	79.0%
The Palette 5	—	—	2,000	—	2,000	3,000	5,000	79.0%
The Palette 2	—	—	12,000	—	12,000	21,000	33,000	79.0%
Subtotal.	—	—	47,000	—	47,000	58,000	105,000	
Properties under development								
RHXC Phase 5 (Lot 6)	118,000	—	19,000	—	137,000	50,000	187,000	79.0% ⁽¹⁾
Ruihong Tiandi Phase 2 (Lot 3)	—	—	78,000	12,000	90,000	29,000	119,000	79.0%
Lot 9	85,000	—	2,000	—	87,000	33,000	120,000	79.0%
Subtotal.	203,000	—	99,000	12,000	314,000	112,000	426,000	
Properties for future development								
Subtotal.	454,000	272,000	187,000	—	913,000	11,000	924,000	79.0% ⁽²⁾
Total	657,000	272,000	333,000	12,000	1,274,000	181,000	1,455,000	

Notes:

- (1) The Group has a 99.0% effective interest in the non-retail portion.
- (2) The Group has a 79.8% interest in Lot 167A and Lot 167B and 79.0% interest in the remaining lots.

Relocation of original residents

Pursuant to the relocation agreements entered into between us and the local government, we have engaged two relocation companies in the Hongkou district to handle the relocation of residents in Lot

4, Lot 6 and Lot 8. Our relocation costs in relation to the Shanghai Rui Hong Xin Cheng project are based on the compensation policy set by the local authorities which may be revised as and when market conditions change. We have completed the relocation of the households located on Lot 4, Lot 6 and Lot 8. By adopting the new relocation scheme, the relocation work for Lot 3 began in 2009. As of December 31, 2013, the relocation of households on this lot was completed. With the successful implementation of the new relocation scheme, the district government plans to speed up the relocation of the Shanghai Rui Hong Xin Cheng project. The second round of relocation consultation on Lot 2, Lot 9 and Lot 10 started in December 2010; 93%, 95% and 78% of residents, respectively, have signed the relocation agreements as of December 31, 2013. The Company also came to agreement with the relevant government department of Hongkou district in late 2013, to commence relocation of Lot 1 and Lot 7. Having passed the second round of consultations, more than 94% of residential relocation agreements had been signed as of December 31, 2013. See “*Regulation — The Land System of the PRC*” and “*Risk Factors — Risks relating to our Business — For some of our development projects, we are required to relocate existing residents and pay relocation costs, and the relocation process may not be completed as planned*”.

Project details

We used to design the Shanghai Rui Hong Xin Cheng project as a residential community. According to the new master plan approved in January 2011, it has become a mixed-use, sustainable, large-scale development including office, retail, hotel, entertainment, cultural and residential space. Upon completion, it will be a humongous shopping center in Northeast Shanghai. Rui Hong Road will draw the greenery from the Peace Park into the community and provide an open green area covered with beautiful landscapes. Each residential block will have a beautiful garden, creating a peaceful and appealing living environment.

Lot 149, Phase 2 of the Shanghai Rui Hong Xin Cheng project, consists of 1,759 units and has a total GFA of approximately 187,000 sq.m. of residential and 28,000 sq.m. of retail podium as well as a clubhouse with a GFA of approximately 5,000 sq.m. Lot 149 is located above the metro station of Metro Line no. 4. All the residential units were sold out. The commercial facilities comprise a two-level “northern” shopping complex and a two-level “southern” commercial podium located in the lower floors of the apartment buildings. The shopping complex was 98% rented as of December 31, 2013.

Lot 8, Phase 3 of the Shanghai Rui Hong Xin Cheng project, comprising 248 units with a residential GFA of approximately 32,000 sq.m., was launched in July 2009 and all units had been sold and were delivered to the home buyers.

Lot 4 consists of four residential towers with a GFA of approximately 63,000 sq.m. and approximately 12,000 sq.m. of retail area. Towers 5 and 6 and Towers 1 and 2 were launched for pre-sale respectively in December 2010 and April 2011. As of December 31, 2013, all 636 units had been sold and delivered to the home buyers.

Subsequent lots of the Shanghai Rui Hong Xin Cheng project

Residential Phase 5 (Lot 6) is under construction, with planned residential GFA of approximately 118,000 sq.m. and a retail GFA of 19,000 sq.m.. Several batches of pre-sale of Residential Phase 5 (Lot 6) were held in 2012 and 2013, achieved a total contracted sales of RMB4,284 million as of December 31, 2013. Phase 5 is scheduled to be delivered in 2014.

Lot 3 successfully completed the second round of relocation intention consultation with the existing residents on April 15, 2010. The relocation was completed in October 2013 and development commenced immediately afterwards in November 2013. This lot is planned to be developed into a commercial and entertainment complex for Hongkou District, which is scheduled to be completed in 2015.

Lot 2, Lot 9 and Lot 10 will be developed progressively with relocation having commenced in December 2010. Construction of these lots is expected to commence after the relocation is completed. Construction of each lot is expected to last for two to three years.

Shanghai KIC

Description

The Shanghai KIC project, also known as the Shanghai Chuangzhi Tiandi project, is a city-core development project that is located adjacent to numerous major universities and research institutes in the Yangpu district, northeast of downtown Shanghai. The Yangpu district is the home to some of China's top universities and colleges, including Fudan University, Tongji University and 12 other universities and colleges. The Shanghai KIC project is designed to be a multi-functional community for people to study, live, work and engage in leisure activities. As a result, through the Shanghai KIC project, we intend to transform Yangpu from an industrial and manufacturing zone into a knowledge and innovation center by drawing on the readily available intellectual capital and human resources in the vicinity, and by creating an environment that we believe will foster innovation, commercialization, technology development, cultural activities, research and business incubation, growth and development.

Master planning

In March 2004, Shui On Holdings Limited, a company within the Shui On Group, entered into a master agreement with the Yangpu District government. The master agreement shows the proposed development of a plot with a site area of approximately 839,000 sq.m. into a comprehensive large-scale community for commerce, offices, education, science and research, culture and entertainment, sports and residential purposes. It is well connected to the city center by a public transportation network consisting of the Mid-Ring Highway, over 30 public transportation routes and Metro Line no. 10.

Under the terms of the master agreement, the development of the site will be carried out by a Sino-foreign equity joint venture in which a company controlled by the Yangpu District government holds a 30% equity interest and our subsidiary Shanghai Yang Pu Centre Development Co., Ltd. ("**KIC Development**") holds the remaining 70% equity interest. We acquired our interest in KIC Development from the Shui On Group in December 2004. In connection with that acquisition, the Shui On Group undertook to exercise all rights under this master agreement pursuant to a deed of undertakings entered into by us with Shui On Holdings Limited on December 31, 2004. In October 2010, we injected US\$77 million by our subsidiary, Bright Continental Limited, into the joint venture for the Shanghai KIC project. As a result, our interest increased to 86.8%.

The Shanghai KIC will include:

- A "Plaza Area" comprising a work, leisure, educational, cultural and service center;
- A "Live and Work" mixed-use area comprising office buildings, retail shops and residential accommodation; and

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- A historic restoration zone, including the Jiangwan Sports Stadium.

Project overview

The following table sets forth the development status of the Shanghai KIC project as of December 31, 2013:

	<u>Approximate/Estimated leasable and saleable GFA</u>							Group's interest
	Residential	Office	Retail	Hotel/ serviced apartment	Sub-total	Clubhouse, Carpark and other facilities	Total	
	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	
Completed properties								
KIC Village R1	—	3,000	7,000	—	10,000	12,000	22,000	86.8%
KIC Village R2 (Lots 7-9, 8-2)	—	6,000	3,000	—	9,000	7,000	16,000	86.8%
KIC Village R2 (Lot 7-7)	—	6,000	1,000	—	7,000	17,000	24,000	86.8%
1,2,3 and 10 KIC Plaza (Phase 1).	—	29,000	21,000	—	50,000	25,000	75,000	86.8%
5-9 KIC Plaza (Phase 2)	—	39,000	10,000	—	49,000	30,000	79,000	86.8%
11-12 KIC Plaza (C2)	—	27,000	11,000	—	38,000	12,000	50,000	86.8%
Jiangwan Regency (Lot 311 Phase 1).	2,000	—	—	—	2,000	19,000	21,000	99.0%
Subtotal	2,000	110,000	53,000	—	165,000	122,000	287,000	
Properties under development								
Lot 311 Phase 2	—	89,000	6,000	23,000	118,000	44,000	162,000	99.0%
Lot 12-8	—	5,000	—	—	5,000	2,000	7,000	86.8%
Subtotal	—	94,000	6,000	23,000	123,000	46,000	169,000	
Total	2,000	204,000	59,000	23,000	288,000	168,000	456,000	

The development of the Shanghai KIC project also comprises restoration of the Jiangwan Sports Stadium, a historic athletic stadium originally built in 1935, and construction of office, residential and commercial buildings.

Relocation of original residents

Under our master agreement with the Yangpu District government, we have agreed to pay compensation to residents to be relocated. To date, the relocation process in Yangpu District has been completed as planned. The identified residents and businesses that needed to be relocated for designated plots of the Shanghai KIC project have already moved and the land cost is fixed. In March 2010, we successfully bid for Lot R3, Lot R4 and Lot C3, also known as Lot 311, in Shanghai KIC. This land parcel is clear and no relocation work is required. See “*Regulation — The Land System of the PRC*” and “*Risk Factors — Risks relating to our Business — For some of our development projects, we are required to relocate existing residents and pay relocation costs, and the relocation process may not be completed as planned*”.

Project details

The Shanghai KIC project is a mixed-use project, designed to be a multi-function community for education, technology, culture, research and development and business incubation uses. When completed, the Shanghai KIC project is expected to comprise a leasable and saleable GFA of approximately 0.5 million sq.m. (excluding the historical zone). The master plan for the Shanghai KIC project was developed by the international consultants, Skidmore, Owings and Merrill.

In 2006, the Plaza Area of the Shanghai KIC won the Urban Design Citation Award from the AIA San Francisco, a Chapter of the American Institute of Architects.

The Plaza Area

The Plaza Area is located along Song Hu Road, in between Zheng Tong Road and Zheng Li Road. The Plaza Area will serve as the commercial center of the Shanghai KIC project comprising office buildings, learning centers, exhibition halls, conference and convention facilities and commercial outlets serving the needs of students, professors, entrepreneurs and professionals studying, living and working in the area.

The Plaza Area covers a site of approximately 62,000 sq.m. with a total leasable and saleable GFA of approximately 99,000 sq.m. The development of the Plaza Area is divided into two phases. Plaza 1 comprises office and commercial buildings which we intend to lease along the University Avenue leading to a plaza in front of the entrance of the stadium and the stadium itself. Construction of Plaza 1 was completed in November 2006 and the occupancy rate was approximately 77% as of December 31, 2013. Plaza 2 was fully completed in December 2010 and the occupancy rate was approximately 96% as of December 31, 2013.

Live and Work Area

The Live and Work Area will consist of Lot R1, Lot R2, Lot R3 and Lot R4 and Lot C1, Lot C2 and Lot C3. It is located in the blocks surrounded by Zheng Tong Road, Guo Ding Road, Zheng Li Road and Song Hu Road. The Live and Work Area will be a mixed-use area comprising low-rise buildings with offices in the front and residential units at the back. The low-rise buildings will be targeted at entrepreneurs engaged in start-up ventures, professionals and faculty members of nearby universities. The buildings are to be designed in a loft style. The Live and Work Area will also have retail outlets serving the daily needs of residents such as restaurants, cafes, laundries and convenience stores.

Lot C2 comprises three office buildings with a retail podium. The construction was completed in September 2011. The office, retail and carpark spaces in Lot 5-5 were sold to the Shanghai Yangpu Branch and Shanghai Branch of the Industrial and Commercial Bank of China Limited in the second half of 2011 and the first half of 2013 respectively.

The development of Lot R1 and Lot R2 were completed in phases from 2006 to 2010. In March 2010, we successfully bid for Lot R3, Lot R4 and Lot C3 (also known as Lot 311) in Shanghai KIC with a total GFA of approximately 235,000 sq.m. for a consideration of approximately RMB1,264 million. The land use right certificate was obtained in the first half of 2011 and construction work commenced in June 2011. Residential units with a GFA of 53,400 sq.m. in Lot 311 were launched in October 2012. As of December 31, 2013, 53,200 sq.m. or 99.6% of the residential GFA was contracted for sale. The development was delivered to customers in the second half of 2013. The remaining area of Lot 311, also known as 1-7 KIC Corporate Avenue, and Lot 12-8, are currently under development with 94,000 sq.m. of GFA designated for offices, 6,000 sq.m. of GFA for retail space and 23,000 sq.m. of GFA for hotel construction with sales and delivery planned for 2014 and 2015. This parcel of land is included as part of the master plan for the entire development of Shanghai KIC.

THE HUB*Description*

THE HUB, wholly owned by Shui On Land by way of an auction bid in September 2010 at RMB3,188 million, is strategically located next to the Hongqiao Transportation Hub in the core area of Hongqiao Central Business District (“**Hongqiao CBD**”) in Shanghai, an area targeted for major economic development in Shanghai’s 12th Five Year Plan (2011 - 2015). Hongqiao CBD is planned as one of the four key economic drivers in this plan and its planned area is 3 times larger than Lujiazui Financial Zone. It is positioned as the “Western Gate” of Shanghai, and with the benefit of its comprehensive transportation facilities, Hongqiao CBD will become the international trade center for Shanghai and the central business district for Yangtze River Delta in the coming few years.

THE HUB is linked directly to the Shanghai High-speed Rail Terminal, Terminal 2 of the Shanghai Hongqiao International Airport, five underground Metro lines, long-haul bus station and the future maglev terminal. It aims to become the heart of Hongqiao CBD in Shanghai and to link Shanghai to the rest of China and the world.

Master planning

THE HUB is located in Lot 6 of Hongqiao CBD core area Phase I. It comprises mixed-use, large retail component, office, hotel and exhibition properties consisting of approximately 282,000 sq.m. of leasable and saleable GFA upon completion.

Project overview

The following table sets forth the development status of THE HUB as of December 31, 2013, which is subject to variation according to future development plans:

	<u>Approximate/Estimated leasable and saleable GFA</u>							Group’s interest
	<u>Residential</u>	<u>Office</u>	<u>Retail</u>	<u>Hotel/ serviced apartment</u>	<u>Sub-total</u>	<u>Clubhouse, Carpark and other facilities</u>	<u>Total</u>	
	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>%</i>
Completed properties								
D17 Showroom Offices Tower 2 and Tower 3 above ground area	—	57,000	1,000	—	58,000	2,000	60,000	100.0%
Subtotal	—	57,000	1,000	—	58,000	2,000	60,000	
Properties under development								
D17 remaining	—	22,000	17,000	45,000	84,000	45,000	129,000	100.0%
D19	—	27,000	113,000	—	140,000	69,000	209,000	100.0%
Subtotal	—	49,000	130,000	45,000	224,000	114,000	338,000	
Total	—	106,000	131,000	45,000	282,000	116,000	398,000	

The land grant contract of THE HUB was signed in March 2011 and the land use right certificate had been obtained on July 28, 2011.

Relocation of original residents

The land we obtained is cleared, no relocation work is required.

Project details

THE HUB is separated into Block D17 and D19 in the north-south direction by the central line of Hongqiao Transportation Hub. Block D17 is designed to build three 10-storey offices, one 11-storey hotel and a 1-3-storey retail zone; whereas Block D19 will have one 7-storey shopping mall, one 9-storey office and one exhibition & performance building. The above ground area of the Showroom Offices Tower 2 and Tower 3 in D17, with a total GFA of 58,000 sq.m., was completed in 2013 and comprises 57,000 sq.m. of office space, and 1,000 sq.m. of entertainment and restaurant facilities. Pre-sale permits for the D17 Showroom Offices Tower 2 and Tower 3, and for the Showroom Office Tower 1 and the Xintiandi area, were obtained in August and December 2013, respectively. A shopping mall of 88,000 sq.m., office space of 49,000 sq.m., ancillary retail space of 42,000 sq.m. and a 5-star hotel of 45,000 sq.m. are scheduled for completion in 2014 and 2015.

Major projects outside of Shanghai***Wuhan Tiandi****Description*

In April 2005, we won the bid for the development of a site known as “Yong Qing Pian” in Wuhan. Our project in Wuhan is known as the Wuhan Tiandi project. The Wuhan Tiandi project is a city-core development project with an estimated total leasable and saleable GFA of approximately 1.4 million sq.m. upon completion, of which approximately 386,000 sq.m. of GFA had been sold as of December 31, 2013.

We plan to develop a large-scale, mixed-use urban property development on two main sites, Site A and Site B. Site A is mainly for office buildings, retail, food and beverage and entertainment facilities, with some residential lots. Site B is mainly for residential usage, neighborhood retail facilities and some commercial parcels for office and retail development. Construction of the Wuhan Tiandi project commenced in the first quarter of 2006.

Master planning

Wuhan, the capital of Hubei Province, is a major transportation hub in China located between Shanghai and Chongqing, at the confluence of the Yangtze River and the Han River, a tributary of the Yangtze River. The site is located in Hankou’s Jiang’an District, at a prominent position along the Yangtze River where the city’s second bridge has been built connecting Hankou to Wuchang. The bridge is part of the roadwork system that forms Wuhan’s inner ring road. The site is separated into Site A and Site B by the elevated road works linking to the bridge.

On June 29, 2007, the Issuer entered into a legally binding agreement with TPD for the sale of 25% of the issued share capital of Fieldcity Investments Limited and the sharing of 25% of then outstanding loans owed by Wuhan Shui On Tiandi Property Development Co., Ltd. to TPD. Wuhan Shui On Tiandi Property Development Co., Ltd. is a wholly foreign owned project company that was formed by Fieldcity Investments Limited. The transaction was closed on July 12, 2007. On December 17, 2008, TPD transferred all its shares in Fieldcity Investments Limited to Wuhan Tiandi Development Company Limited.

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Project overview

The following table sets forth the development status of the Wuhan Tiandi project as of December 31, 2013:

	<u>Approximate/Estimated leasable and saleable GFA</u>					Clubhouse, carpark and other facilities	Total	Group's interest
	Residential	Office	Retail	Hotel/serviced apartment	Sub-total			
	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.			
Completed properties								
Wuhan Tiandi (Lots A4-1/2/3)	—	—	46,000	—	46,000	25,000	71,000	75.0%
Wuhan Tiandi B11	—	—	—	—	—	13,000	13,000	75.0%
Subtotal.	—	—	46,000	—	46,000	38,000	84,000	
Properties under development								
Lots A1/A2/A3 - Phase 1	—	32,000	110,000	7,000	149,000	125,000	274,000	75.0%
Wuhan Tiandi B13	56,000	—	—	—	56,000	22,000	78,000	75.0%
Wuhan Tiandi B14	88,000	—	—	—	88,000	25,000	113,000	75.0%
Lot A2 - Office Tower	—	36,000	—	—	36,000	2,000	38,000	75.0%
Lot A3 - Office Tower	—	51,000	—	—	51,000	2,000	53,000	75.0%
Lot A1 - Office Tower	—	113,000	—	54,000	167,000	10,000	177,000	75.0%
Subtotal.	144,000	232,000	110,000	61,000	547,000	186,000	733,000	
Properties for future development								
Subtotal.	283,000	34,000	92,000	10,000	419,000	4,000	423,000	75.0%
Total	427,000	266,000	248,000	71,000	1,012,000	228,000	1,240,000	

Relocation of original residents

The Wuhan Tiandi project was obtained through public bidding and we have made substantial payment for the land. The Wuhan government is responsible for all the related relocation work at its own cost. Land on Site A has been completely cleared and delivered to us in phases and is now under construction. Site B is currently under construction and as of December 31, 2013, approximately 95% of the residents had signed relocation agreements. All land parcels of site B have been handed over to us except Lots B1 and B10. See “*Regulation — The Land System of the PRC*” and “*Risk Factors — Risks relating to our Business — For some of our development projects, we are required to relocate existing residents and pay relocation costs, and the relocation process may not be completed as planned*”.

Project details

In the plan that we prepared in consultation with Skidmore, Owings & Merrill, we envisaged an urban mixed-use community that is intended to promote the redevelopment of Wuhan as one of the transportation hubs of China.

Site A

The planned leasable and saleable GFA of Site A is expected to be approximately 723,000 sq.m. upon completion, of which approximately 265,000 sq.m. of GFA had been sold as of December 31, 2013.

Nine historic buildings on Site A are planned to be restored to create buildings with historical and cultural characteristics similar to those restored at Shanghai Xintiandi. We propose to build a high-rise landmark office tower next to the light rail transit station.

Site A is planned to be developed in five phases. The initial construction commenced in the first quarter of 2006. The first phase of the residential development of Lot A9 and Lot A7, known as Phase 1 of The Riverview, with approximately 69,000 sq.m., was completed in 2007 and 2008, respectively. The second phase of the residential development, Phase 2 of The Riverview, consists of three plots of land, namely Lot A6, Lot A8 and Lot A10. Apartments in Lot A8 and Lot A10, with approximately 55,000 sq.m. of residential GFA, were pre-sold in 2009 and delivered to the customers in the first half of 2010. Lot A6 in Phase 2 of The Riverview was launched for pre-sale in January 2010 and the construction of this lot was completed in the second half of 2010. All units in the Phase 1 and Phase 2 of The Riverview had been sold and delivered to the customers.

We have also completed the commercial portion of Site A, Wuhan Tiandi on Lot A4-1, Lot A4-2 and Lot A4-3, which has a total leasable GFA of approximately 46,000 sq.m. As of December 31, 2013, the Wuhan Tiandi had achieved an occupancy rate of 91%.

Lot A5 is a grade A office building named as “Corporate Centre 5” with a leasable and saleable GFA of 57,000 sq.m. of office space and 2,000 sq.m. of retail space. The office building was pre-sold to Ping An Life Insurance Company of China, Limited (“**Ping An**”) for a total consideration of approximately RMB963 million in 2011. The building was completed and delivered to Ping An in December 2011. Lot A11 and Lot A12, also known as Phase 3 of The Riverview, with a total residential GFA of approximately 51,000 sq.m., are luxury residential apartments. The construction works were completed and the apartments were delivered to customers in 2011. As of December 31, 2013, all units had been sold and delivered to the customers.

The construction of the shopping mall (retail podium of Lot A1, Lot A2 and Lot A3) for a total GFA of approximately 110,000 sq.m. commenced after the ground breaking ceremony held in November 2010 and is expected to be completed in 2015. A Grade A office building at Lot A2 is currently under construction and is expected to yield prime office space, providing 46,000 sq.m. of GFA and is expected to be completed in the first half of 2015. Development works are in progress at Lot A3 with a total GFA of 60,000 sq.m. for office space, and are scheduled for completion in 2015.

Site B

We expect the total leasable and saleable GFA of Site B to be approximately 675,000 sq.m. when the site is completed, of which more than 81% will comprise residential units.

All of the residential units in Wuhan Tiandi B9, comprising a total leasable and saleable GFA of 67,000 sq.m., were sold and delivered following their completion in late 2012. In addition, Wuhan Tiandi B11, with a total leasable and saleable GFA of 54,000 sq.m., was completed and delivered to customers as of the end of 2013. Construction work at Lot B13 for residential use commenced in the first half of 2013, with a total leasable and saleable GFA of 56,000 sq.m. and such units were launched for sale from the second half of 2013. Several rounds of sale and pre-sale new launches of residential apartments and retail portions in these developments have been conducted, resulting in contracted sales of RMB1,895 million. The development of Lot B13 is scheduled for completion in the second half of 2014.

Chongqing Tiandi

Description

The Chongqing Tiandi project is a city-core development project comprising, on completion, an expected leasable and saleable GFA of approximately 2.8 million sq.m., of which approximately 716,000 sq.m. of GFA had been sold as of December 31, 2013. The project is situated on the south bank of the Jialing River on the hillside, just upstream of the confluence of the Yangtze and Jialing Rivers. The Chongqing Tiandi project is located adjacent to the central business district in the Yuzhong District in Chongqing, an economic hub of southwest China. We intend for this project to support and service Chongqing's extensive manufacturing and service industries. It will include facilities such as an exhibition and merchandise center, luxury hotels and office buildings as well as residential and retail, food and beverage and entertainment properties. Construction of the Chongqing Tiandi project commenced in the fourth quarter of 2005.

On completion, we expect that the Chongqing Tiandi project will be integrated with and become a new part of Chongqing's central business district. The design takes advantage of the plot's unique landscape and envisions a commercial and residential space around a man-made lake and the surrounding hillsides.

Master planning

In August 2003, our subsidiary, Grand Hope Limited, entered into a master agreement with the Yuzhong District government in relation to the development of the Chongqing Tiandi project, following which, our subsidiary, Chongqing Shui On Tiandi Property Development Company Limited, entered into three land grant contracts with Chongqing Municipal Bureau of Land Resources and Housing Management in December 2003, March 2005 and March 2007, respectively, for the Chongqing Tiandi project covered in the master agreement.

Chongqing Shui On Tiandi Project Development Co., Ltd. is a Sino-foreign equity joint venture project company that was formed pursuant to a master agreement entered into between Grand Hope Limited and the Yuzhong District government in relation to the development of the Chongqing Tiandi project. Grand Hope Limited holds a 99% interest in this project company and Chongqing Yuzhong State-owned Asset Management Co., Ltd. holds the remaining 1% interest.

The Issuer entered into legally binding agreements with Winnington and Ocean Equity Holdings Limited on September 1, 2006 and September 9, 2006, respectively, for the sale of 19.8% in total (9.9% to each of Winnington and Ocean Equity Holdings Limited) of Score High Limited which holds 99% indirect interest in the Chongqing Tiandi project.

On December 30, 2008, Winnington transferred all its shares in Score High Limited to Chongqing City Centre Development Company Limited.

Pursuant to a sale and purchase agreement dated August 21, 2008, as amended by a supplementary agreement dated August 29, 2008, between Score High Limited as seller and Winnington as purchaser, Score High Limited agreed to sell its 25% equity interest in Rightchina Limited which holds 99% interest in the Super High Rise development in the Chongqing Tiandi project. Pursuant to the agreement, Score High Limited also granted an irrevocable call option to Winnington or its affiliate

to acquire an additional 25% equity interest of Score High Limited in Rightchina Limited, exercisable during the period from December 1, 2008 to December 31, 2008. The call option was not exercised during the period nor the extended exercisable period agreed to in April 2009. Super High Rise development is our development for the Chongqing Tiandi project on Lot B11-1/02, comprising primarily office, hotel, retail and other commercial space, with a planned leasable and saleable GFA of approximately 519,000 sq.m. upon completion. All the office floors of 2 Corporate Avenue (Lot B11-1/02 Phase 1) with a total GFA of 120,000 sq.m., together with 815 underground car parking spaces of this property, were completed and contracted for sale to Sunshine Life Insurance Co., Ltd. in 2013 and are expected to be delivered in 2014.

On December 18, 2008, Winnington transferred all its shares in Rightchina Limited to Golden Swan Holdings Limited.

The following table sets forth the development status of for the Chongqing Tiandi project as of December 31, 2013:

<u>Approximate/Estimated leasable and saleable GFA</u>								
<u>Residential</u>	<u>Office</u>	<u>Retail</u>	<u>Hotel/serviced apartment</u>	<u>Sub-total</u>	<u>Clubhouse, carpark and other facilities</u>	<u>Total</u>	<u>Group's interest</u>	
<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>%</i>	
Completed properties								
The Riviera I (Lot B1-1/01)	—	—	1,000	—	1,000	11,000	12,000	79.4%
Chongqing Tiandi (Lot B3/01)	—	—	49,000	—	49,000	25,000	74,000	79.4%
The Riviera II (Lot B2-1/01)	12,000	—	5,000	—	17,000	35,000	52,000	79.4%
The Riviera III (Lot B19/01)	2,000	—	5,000	—	7,000	19,000	26,000	79.4%
The Riviera IV (Lot B20-5/01)	17,000	—	—	—	17,000	23,000	40,000	79.4%
2 Corporate Avenue (Lot B11-1/02 Phase 1) ⁽¹⁾	—	120,000	11,000	—	131,000	53,000	184,000	59.5%
6, 7 Corporate Avenue (Lot B12-3/02)	—	—	37,000	—	37,000	23,000	60,000	79.4%
8 Corporate Avenue (Lot B12-4/02)	—	—	31,000	—	31,000	21,000	52,000	79.4%
The Riviera V Stage 1 (Lot B18/02)	8,000	—	3,000	—	11,000	5,000	16,000	79.4%
Subtotal	39,000	120,000	142,000	—	301,000	215,000	516,000	
Properties under development								
The Riviera V Stage 2 (Lot B18/02)	171,000	—	2,000	—	173,000	40,000	213,000	79.4%
1, 10 Corporate Avenue (Lot B11-1/02 Phases 2&3)	—	259,000	104,000	25,000	388,000	114,000	502,000	59.5%
Lot B13/03	—	152,000	83,000	—	235,000	57,000	292,000	79.4%
Subtotal	171,000	411,000	189,000	25,000	796,000	211,000	1,007,000	
Properties for future development								
Subtotal	780,000	25,000	91,000	78,000	974,000	218,000	1,192,000	79.4%
Total	990,000	556,000	422,000	103,000	2,071,000	644,000	2,715,000	

Note:

- (1) All the office floors, together with 815 underground car parking spaces have been contracted for sale to Sunshine Life Insurance Co., Ltd. and are expected to be delivered in 2014.

Relocation of original residents

We negotiated a fixed land price with the land bureau in Chongqing and the local government is responsible for relocating original residents. Almost all the relocation work has been completed as of December 31, 2013 and most of the land parcels in the Chongqing Tiandi project had been handed over to us phase by phase. See “*Regulation — the Land System of the PRC*” and “*Risk Factors — Risks relating to our Business — For some of our development projects, we are required to relocate existing residents and pay relocation costs, and the relocation process may not be completed as planned*”.

Project details

The master plan for the Chongqing Tiandi project was developed by us in consultation with Skidmore, Owings and Merrill. The main features of the Chongqing Tiandi project are planned to include:

- A man-made lake with pavilions and walkways along the shore;
- A commercial core comprising business service facilities including an exhibition and merchandise center, luxury hotels, conference facilities, office buildings as well as retail and entertainment properties; and
- Residential clusters on the hillside replicating Chongqing’s traditional hill-town characteristics and offering scenic views of the lake and the river.

Construction of the first phase of residential development on Lot B1-1/01, The Riviera I, was completed in June 2008. The site comprises approximately 109,000 sq.m. of leasable and saleable GFA. As of December 31, 2013, all the units with the total GFA of 107,000 sq.m. of residential properties had been sold and delivered to the home buyers.

Stage 1 (Towers 1 to 5), Stage 2 (Towers 6 to 12) and Stage 3 (Towers 13 to 17) of Lot B2-1/01, The Riviera II, were completed in 2010, the end of 2011 and June 2012 respectively, among which, 190,000 sq.m. of residential properties and 2,000 sq.m. of retail portion had been sold and delivered to the end-buyers as of December 31, 2013.

Construction works at Lot B19/01, The Riviera III, commenced in the first quarter of 2010, were fully completed in July 2012. Residential towers in Lot B19/01 were launched in phases from December 2010. As of December 31, 2013, 115,000 sq.m. of residential and retail properties had been sold and delivered to the home buyers.

Construction works of Lot B20-5, The Riviera IV, were completed between 2012 and 2013. The total GFA of 83,000 sq.m. was launched for pre-sale in phases from the second half of 2012, among which, 66,000 sq.m. of residential properties had been sold and delivered to the home buyers as of December 31, 2013.

Construction works of the first stage (Towers 10 to 12) of Lot B18/02, The Riviera V, were completed in 2013. The remaining phases of The Riviera V, with 171,000 sq.m. of apartments and 2,000 sq.m. of retail space, are under construction and are planned for completion in the second half of 2014.

Construction works of Chongqing Tiandi commercial portion in Lot B3/01 had been fully completed in 2010. A soft opening was held in January 2010. Public facilities, such as the Grand Theatre and man-made lakes were opened to the public in May and June of 2010, respectively, providing a new recreational area to residents in Chongqing.

Construction work of a Grade A office tower at 2 Corporate Avenue (Lot B11-1/02 Phase 1) with a leasable and saleable GFA of 131,000 sq.m. commenced in late 2009 and were completed in the first half of 2013. All the office floors with an aggregate GFA of 120,000 sq.m., together with 815 underground car parking spaces for this property, were sold to Sunshine Life Insurance Co., Ltd. and are expected to be delivered in 2014.

Construction works of office towers in commercial zone (including Lot B12-1, Lot B12-3, Lot B12-4 and Lot B13) partially commenced from December 2010. 3, 4 and 5 Corporate Avenue (Lot B12-1) with a total GFA of 99,900 sq.m. and carparks were delivered to certain affiliates of the Ping An Group in the first half of 2013. The GFA of 204,000 sq.m. at 6, 7 and 8 Corporate Avenue (Lots B12-3 and B12-4) was completed in the second half of 2013, amongst which, 134,000 sq.m. of office properties and 2,000 sq.m. of retail portion were sold and delivered to customers in late 2013.

Foshan Lingnan Tiandi

Description

The Foshan Lingnan Tiandi project, a large-scale city center development project similar to the Shanghai Taipingqiao project, is located in Zumiao and Donghuali in Foshan City, Guangdong Province, with a planned leasable and saleable GFA of approximately 1.5 million sq.m.. This development is zoned for a comprehensive mixed-use community with a restoration project. Construction of the Foshan Lingnan Tiandi project commenced in 2008.

Master Planning

The Foshan Lingnan Tiandi project is located in the center of Chancheng district, which is the urban district of Foshan and also the political, finance, cultural and transportation center. Among the 22 historic culture heritage centers located in the area, Zumiao and Donghuali are the most famous sites. Zumiao, meaning “Temple of Ancestor” in Chinese, is an ancient temple which attracts millions of tourists from all over the world every year. Donghuali is a lane where upper-class residents lived in the Qing Dynasty and is now known for its artistic and unique architecture. Zumiao and Donghuali are both national-level cultural relics.

On November 30, 2007, we, through eight subsidiaries duly organized in Hong Kong, successfully acquired the site for the Foshan Lingnan Tiandi project in a public auction. A land grant contract between us and the local government was signed on May 30, 2008, and we have made substantial payment for the site.

On November 29, 2011, the Group and Mitsui entered into a sale and purchase agreement, pursuant to which the Group agreed conditionally to sell and Mitsui agreed conditionally to purchase a 49% equity interest in the entire issued share capital of Value Land Investment Limited (“**Value Land**”) and the related shareholder’s loans, in two tranches for total cash consideration of approximately RMB391 million. Value Land holds all the class A shares of Magic Bright Investments Limited, which wholly owns Regal Victory Limited, which in turn owns 92% of Foshan Yong Rui Tian Di Property Development Co., Ltd. which owns the land known as Lot 18 of the Foshan Lingnan Tiandi project. Upon completion of the share transfer on February 4, 2013, we held 54.92% interest in Fo Shan Yong Rui Tian Di Property Development Co., Ltd. and Mitsui held the remaining 45.08% interest. This transaction was completed on February 4, 2013. For further details, please refer to the announcement made by the Group on November 29, 2011 and the circular dated January 3, 2012, which were published and are available on the website of Hong Kong Stock Exchange.

BUSINESS

On August 22, 2012, the Group and Mitsui entered into a sale and purchase agreement, pursuant to which the Group agreed conditionally to sell and Mitsui agreed conditionally to purchase a 49% equity interest in the entire issued share capital of Glory Land Investments Limited (“**Glory Land**”) and the related shareholder’s loans for a total cash consideration of approximately RMB224 million. Glory Land holds all the class A shares of Billion China Investments Limited, which wholly owns Crown Fame Limited, which in turn owns 90% of Foshan Shui On Property Development Co., Ltd. which owns the land known as Lots 6 and 16 of the Foshan Lingnan Tiandi project. Upon acquisition of a 49% equity interest in Glory Land, Mitsui will hold a 44.1% attributable interest in Foshan Shui On Property Development Co., Ltd. The transaction was completed on November 9, 2012. For further details, please refer to the announcement made by the Group on August 22, 2012, which was published and is available on the website of the Hong Kong Stock Exchange.

The Foshan Lingnan Tiandi project is a city-core development project comprising office, retail, hotel, cultural facilities and residential properties. The project is expected to comprise nearly 1.5 million sq.m. of leasable and saleable GFA and is planned for development in 5 phases over a period of 10 years.

Project overview

The following table sets forth the development status of the Foshan Lingnan Tiandi project as of December 31, 2013:

	<u>Approximate/Estimated leasable and saleable GFA</u>							Group’s interest
	Residential	Office	Retail	Hotel/serviced apartment	Sub-total	Clubhouse, carpark and other facilities	Total	
	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	
Completed properties								
The Regency Phase 1 (Lot 4)	—	—	—	—	—	7,000	7,000	100.0%
The Legendary Phase 1 (Lot 14)	2,000	—	—	—	2,000	7,000	9,000	100.0%
Lingnan Tiandi Phase 1 (Lot 1 Ph1)	—	—	16,000	—	16,000	1,000	17,000	100.0%
Marco Polo Lingnan Tiandi Foshan Hotel	—	—	14,000	38,000	52,000	25,000	77,000	100.0%
The Regency Phase 2 (Lot 5)	13,000	—	—	—	13,000	17,000	30,000	100.0%
The Legendary Phase 2 (Lot 15)	11,000	—	—	—	11,000	17,000	28,000	100.0%
Lingnan Tiandi Phase 2 (Lot 1 Ph2)	—	—	36,000	—	36,000	2,000	38,000	100.0%
Lot 13b	—	—	—	—	—	6,000	6,000	100.0%
Subtotal	26,000	—	66,000	38,000	130,000	82,000	212,000	
Properties under development								
Lingnan Tiandi • Park Royale (Lot 6)	43,000	—	3,000	—	46,000	29,000	75,000	55.9%
Lingnan Tiandi • The Imperial (Lot 16)	12,000	—	1,000	—	13,000	10,000	23,000	55.9%
Lot 18	100,000	—	18,000	—	118,000	43,000	161,000	54.9%
Lot E	15,000	—	79,000	—	94,000	26,000	120,000	100.0%
Lot 3 Phase1	—	—	2,000	—	2,000	—	2,000	100.0%
Lot G	—	—	2,000	—	2,000	—	2,000	100.0%
Lingnan Tiandi Phase 3 (Lot 1 Ph3)	—	—	5,000	—	5,000	—	5,000	100.0%
Subtotal	170,000	—	110,000	—	280,000	108,000	388,000	
Properties for future development								
Subtotal	377,000	450,000	125,000	80,000	1,032,000	10,000	1,042,000	100.0%
Total	573,000	450,000	301,000	118,000	1,442,000	200,000	1,642,000	

Relocation of original residents

The neighborhood of our Foshan Lingnan Tiandi project is the traditional commercial center of Foshan city. The government plans to rebuild this area into the central business district of Foshan, which would include high-end retail, office, hotel, cultural facilities and residential properties. Pursuant to a Bidding Confirmation dated November 30, 2007, the Foshan government promised to handle all the related relocation work at its own cost. As of December 31, 2013, approximately 99.8% of the relocation work had been completed.

Project details

We have engaged Skidmore, Owings & Merrill to prepare a master plan for the project. The proposed master plan includes a comprehensive mixed-use community comprised of Grade A offices, five-star standard hotels, high-end residential and cultural facilities, and also Foshan Tiandi, a restoration project similar to Shanghai Xintiandi. The master plan has won the following international renowned awards including American Institute of Architects (the “AIA”) Honor Award for Regional & Urban Design 2009, AIA San Francisco Chapter — Honor Award for Urban Design 2009, AIA Hong Kong Chapter — Merit Award for Urban Design 2008 and MIPIM Architectural Review Future Project Award 2009, which reflected its high recognition by these professional institutions.

The project will be a city-core development like the Shanghai Taipingqiao project, with the following planning principles:

- developing a mixed-use district that creates a balance among live, work and play lifestyles;
- creating a development with historic assets but also serving as cultural and entertainment venues;
- utilizing small blocks to create pedestrian streets;
- planning a street framework that will allow for a high degree of connectivity and phasing flexibility;
- building open space amenities that provide value to adjacent properties;
- providing a high degree of connectivity with mass transit systems (such as subways and buses);
- integrating public facilities, like schools, that will serve families in the residential community; and
- erecting a super high-rise as a landmark for the area.

Foshan Lingnan Tiandi Phase 1 (Lot 1 Phase 1) with a GFA of 16,000 sq.m. was completed and opened in 2011. Lingnan Tiandi Phase 2 (Lot 1 Phase 2) was also completed and opened in 2013, providing a total GFA of 36,000 sq.m. of retail and entertainment space.

The Marco Polo Lingnan Tiandi Foshan Hotel at Lot D was completed and opened to the public in May 2012.

As of December 31, 2013, 42,000 sq.m. of low-rise apartments at The Regency Phase 1 in Lot 4 and 11,000 sq.m. of the townhouses at The Legendary Phase 1 in Lot 14 had been sold and delivered to buyers.

Townhouses at The Legendary Phase 2 (Lot 15) and the low-rise and mid-rise apartments at the Regency Phase 2 (Lot 5) were launched for pre-sale in 2012. Constructions were completed in the second half of 2012. And the construction works of the retail space at The Legendary Phase 2 Stage 2 (Lot 15 Phase 2) were completed in the first half of 2013. As of December 31, 2013, 5,000 sq.m. of the townhouses in Lot 15 and 38,000 sq.m. of the apartments in Lot 5 and the retail portion of 2,000 sq.m. in Lots 5 and 15 had been sold.

The high-rise and mid-rise apartments and the retail portion in Lingnan Tiandi • Park Royale (Lot 6), and the retail portion in Lingnan Tiandi • The Imperial (Lot 16), were launched in the second half of 2013. The residential developments located at Lots 6 and 16, offering a total GFA of 55,000 sq.m., are scheduled to be completed during 2014. Other residential developments in Lots 18 and E with a total GFA of 115,000 sq.m. are under construction.

Phase 3 of the Tiandi area (Lot 1) with a total GFA of 5,000 sq.m. of retail space, is currently under development, and is scheduled for completion in 2015. Construction work is underway for other retail space located at Lot 6, Lot 16, Lot 18, Lot E and Lot 3 Phase 1. Completion is planned for between 2014 and 2015.

Dalian Tiandi project

Description

Located in the city of Dalian, the Dalian Tiandi project (previously called Dalian Software Park Phase 2) is a large-scale development with an expected aggregate GFA of approximately 3.5 million sq.m. of which approximately 109,000 sq.m. of GFA has been sold as of December 31, 2013. According to the master planning. As of December 31, 2013, approximately 3.1 million sq.m. of aggregate GFA had been acquired by the Group together with two equity partners through public bidding. We plan to acquire the remaining GFA of approximately 0.3 million sq.m. through public bidding. Dalian is a regional economic center in northeast China. With rapid growth over the past few years, the software and business process industries in Dalian have been designated among its pillar industries by the Dalian government. It is expected that Dalian will become one of the major information technology outsourcing and business process outsourcing centers in China.

Master planning

On May 25, 2007, our subsidiary, Innovate Zone Group Limited (“**Innovate Zone**”), entered into a shareholders agreement with Main Zone Group Limited (“**Main Zone**”) and Many Gain International Limited (“**Many Gain**”) to form a joint venture company incorporated in BVI, Richcoast Group Limited (“**Richcoast**”), which is owned 61.54%, 28.20% and 10.26% by Innovate Zone, Main Zone and Many Gain, respectively. Richcoast, in turn, established four subsidiaries incorporated in Hong Kong and acquired from the Yida Group a 78% equity interest in each of the four Dalian joint ventures formed by the Yida Group in the PRC (the “**PRC JV Company**”). The PRC JV Company holds the relevant Dalian project companies for development of Dalian Tiandi project. Main Zone is a subsidiary of SOCAM and Many Gain is a subsidiary of the Yida Group. Our aggregate interest in the PRC JV Company is 48%. As of December 31, 2013, Innovate Zone, Main Zone and Many Gain had injected all required fundings into the Dalian Tiandi project.

On February 22, 2011, we entered into agreement with Mitsui for the sale and purchase of 30% of the issued share capital of Many Praises Dalian Limited in connection with the land known as Lots C01, C03, B08, B09, E02A and D06 of the Dalian Tiandi project.

Other than the Designated Land for which the land use right has been granted to the Yida Group and been transferred to the Dalian joint ventures, the acquisition of the land was and will be by way of competitive bidding and there can be no assurance that the Dalian joint ventures will be successful in acquiring all or any piece of the land (other than the Designated Land). As the Yida Group has already incurred costs in reclaiming, clearing and preparing the land and has done so with the consent of the relevant government authorities in the PRC, if any part of the land is granted to a third party in the bidding process, we believe that the PRC government will compensate the Yida Group for the relevant costs incurred, even though there is no written assurance from the PRC government to that effect. The Yida Group has agreed to assign such rights to compensation to the Dalian joint ventures in such case.

Project overview

The following table sets forth the development status of the Dalian Tiandi project as of December 31, 2013:

<u>Approximate/Estimated leasable and saleable GFA</u>								
	Residential	Office	Retail	Hotel/serviced apartment	Sub-total	Clubhouse, carpark and other facilities	Total	Group's interest
	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	<i>sq.m.</i>	%
Completed properties								
Huangnichuan North								
Lot D22 (Software Office) . . .	—	42,000	—	—	42,000	15,000	57,000	48.0%
Lot B02 (Ambow Training School)	—	113,000	—	—	113,000	4,000	117,000	48.0%
Lot D14 (SO2/SO4)	—	52,000	—	—	52,000	10,000	62,000	48.0%
Lot E06 (Villas)	19,000	—	—	—	19,000	9,000	28,000	48.0%
Lot E06 (Mid/high-rises)	8,000	—	—	—	8,000	31,000	39,000	48.0%
Lot E29	—	—	—	—	—	11,000	11,000	48.0%
Lot C10 (Engineer Apartment)	37,000	—	—	—	37,000	9,000	46,000	48.0%
Lot D10 (IT Tiandi)	—	—	41,000	—	41,000	—	41,000	48.0%
Lot C14	—	—	—	—	—	24,000	24,000	48.0%
Subtotal	64,000	207,000	41,000	—	312,000	113,000	425,000	
Properties under development								
Huangnichuan North								
Lot D14 (SO5)	—	36,000	—	—	36,000	15,000	51,000	48.0%
Lot D10 (Hotel)	—	—	—	33,000	33,000	22,000	55,000	48.0%
Lot C22	21,000	—	—	—	21,000	10,000	31,000	48.0%
Lot E02	136,000	—	—	—	136,000	40,000	176,000	48.0% ⁽¹⁾
other lots	169,000	14,000	1,000	—	184,000	86,000	270,000	48.0%
Hekou Bay								
Lot B09	32,000	—	—	—	32,000	17,000	49,000	48.0% ⁽¹⁾
Lot B13	44,000	—	—	—	44,000	21,000	65,000	48.0%
Lot C01	15,000	—	—	—	15,000	7,000	22,000	48.0% ⁽¹⁾
Lot B08	18,000	—	13,000	—	31,000	5,000	36,000	48.0% ⁽¹⁾
Lot B02 (SO)	—	30,000	—	—	30,000	36,000	66,000	48.0%
other lots	44,000	127,000	157,000	13,000	341,000	37,000	378,000	48.0% ⁽¹⁾
Subtotal	479,000	207,000	171,000	46,000	903,000	296,000	1,199,000	
Properties for future development⁽²⁾								
Subtotal	503,000	867,000	383,000	42,000	1,795,000	—	1,795,000	48.0% ⁽¹⁾
Total	1,046,000	1,281,000	595,000	88,000	3,010,000	409,000	3,419,000	

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Notes:

- (1) The Group has a 48.0% interest in Dalian Tiandi, except for certain lots in which the Group has a lower effective interest.
- (2) Dalian Tiandi has a landbank of 3.4 million sq.m. in GFA. As of 31 December 2013, approximately 3.1 million sq.m. had been acquired. The remaining GFA of approximately 0.3 million sq.m. will be acquired through public bidding in due course.

The Dalian Tiandi project is a large-scale integrated development project comprising software offices, residential, commercial and retail properties, together with educational, research, outdoor recreational and environmental facilities and other public amenities. It will involve the development, construction, sale, lease, operation and management of the Dalian Software Park (“**DSP**”) at Dalian. The project is planned for development in phases over a period of about 10 years.

Relocation of original residents

The Yida Group is responsible for the relocation of residents on the site of Dalian Tiandi. As of December 31, 2013, the relocation was completed and the two plots of land with an aggregate GFA of 3.1 million sq.m., for which we have obtained land use right certificates, have been handed over to us by land bureau.

Project details

Dalian Tiandi, a large scale mixed-use development, is located adjacent to the Dalian Software Park in the west of Dalian City. It is designed to serve the city’s emerging information technology outsourcing and business process outsourcing industries.

The projects in Huangnichuan Road North mainly comprise the software offices, residential, IT Tiandi, training centers and supporting facilities. We plan to build an indoor area similar to Shanghai Xintiandi and other commercial facilities, a hotel, offices and high-end residential units, acting as a business hub in Hekou Bay to serve the expatriates and professionals in Dalian Tiandi, and also the people from the city center and Northeast China.

A total of 207,000 sq.m. of GFA has been developed into office spaces with tenants including famous technology companies such as IBM, Ambow, and Chinasoft.

As of December 31, 2013, 77,000 sq.m. of townhouses and apartments in Greenville Phase 1 and 32,000 sq.m. of apartments in Greenville Style (Lot C14) had been sold and delivered to buyers.

A total GFA of 0.9 million sq.m. is currently under development. It is planned to be developed for different use.

OVERVIEW OF OUR PRINCIPAL ACTIVITIES

Our principal business activities are discussed below:

Site selection and master planning

We place a strong emphasis on the site selection process and consider it fundamental to the success of our property development projects. Our site selection process is led by members of our senior management including our chairman and other executive directors. We conduct in-depth market analysis in order to understand the spatial dynamics and relevant economic trends of a city before we proceed with site acquisition and preparation of the conceptual master plan for a property development project. In addition to accepting invitations from PRC government authorities to review development

prospects in their respective cities, we continually screen cities and locations in China to identify new property development opportunities. In the city screening process, our research and strategic planning department, in conjunction with outside consultants, would undertake in-depth site feasibility analysis to evaluate its development potential. This analysis includes:

- an assessment of the economic and property market trends;
- a study of the physical characteristics of the site;
- a site positioning analysis; and
- a preliminary planning proposal to match the target development with its location and to determine the amount and mix of floor areas of office, residential, commercial and other land uses appropriate for the site.

In determining whether to enter into a new development, we consider, among others, the following factors and risks of development:

- the appropriate mix of office, residential or retail property type proposed for the development;
- the supply and demand for the various product types and the competitive landscape;
- the degree to which the proposed development fits in with our business and growth strategies, as well as the development plans of the local, provincial and central government;
- the expected financial returns arising from sales and leasing activities as well as overall capital appreciation, from the development;
- the tax and regulatory environment in the geographic area in which the development is to be located;
- the availability of suitable plots of land for the site, in terms of size and location;
- the presence of historically significant architectural details that can be preserved and incorporated into the project; and
- the convenience of transport access to the site and any benefits from features or facilities located near the site, such as natural parks, lakes, rivers, greenery, schools, universities and commercial facilities.

Land acquisition

We actively seek land suitable for our projects. We enter into master agreements or similar arrangements with respect to our projects. We seek to acquire land use rights directly by: (i) competitive bidding through public tenders, auctions or listing at a land exchange administered by the local government; and (ii) purchasing land use rights directly from third parties or acquiring companies that hold land use rights. In addition, where we are permitted by PRC law to do so, we acquire land use rights by agreement with local governments for the comprehensive redevelopment of urban areas.

Project design, interior design and product positioning

We engage independent architects and engineering consultants to provide the design services required for each of our development projects, all in accordance with the intentions of the approved master plans, the design guidelines, market positioning and the development schedules adopted by our project directors.

The services of the architects and the engineering consultants are managed by a design management team which helps project directors to organize a project consultants' team that is most appropriate for the size and nature of each project undertaken. Generally, such consultants' team consists of an architect, a structural engineering consultant, a building services consultant, a landscape designer, an interior designer and any other specialist consultants as required by each specific project. We focus on the importance of consistency and detailing in architectural design. Project architects will be commissioned to provide full design service, whenever possible.

We maintain and constantly update a list of pre-qualified architects and engineering consultants, local and international firms of good professional standing and firms that are fully committed to the Chinese market. We appoint a project consultants' team and the design management team formulates a design brief based on the proposals of the master plan and consultations with the project director, his market research advisors, if any, our in-house sales and marketing/leasing team, the construction manager, the property manager and other relevant individuals in order to position the project to respond to the demands of the prevailing market and to meet the development costs budgeted by the project director. Progress and quality of the service of the project consultants' team is closely monitored by the design management team.

Procurement and construction work

We engage independent contractors to provide construction work to our projects including, but not limited to, piling and foundation work, civil work, electrical and mechanical work, interior fitting out work. In addition to our centralized procurement of material, we have established strategic partnering with capable and reliable main contractors, electrical and mechanical contractors, interior fitting out contractors to our projects and thus enhance our efficiency, quality and cost benefits. We also engage, to a limited extent, related parties in the Shui On Group and SOCAM to carry out the construction of development projects or supply materials to our development projects. Any transactions with these related parties are carried out on an arm's-length basis on normal commercial terms. We establish and maintain approved registers of design consultants, other consultants, contractors and material suppliers to ensure that only those that are competent are permitted to participate in the tender process.

In 2010, we adopted the project-base operation model. Under such model, our procurement and quality management department in the corporate office is responsible for (i) establishing and maintaining strategic partnerships with selected capable contractors and material suppliers for major trades and key material/products of construction work; (ii) formulating procurement policy and standardizing procurement documents and operation procedure to ensure consistency in all projects; (iii) setting up a project cost data bank for information sharing among projects; (iv) performing regular technical audits on projects to ensure that good quantity surveying and procurement practices and company policies are being observed. The quantity surveying and procurement department in project offices is responsible for the contract administration and cost control as well as tendering of other trade work and material/products not covered under the strategic partnership arrangement for the projects under their management. The decision to award is to be made by the procurement committee for the relevant project and is made on the basis of capability to satisfy contract requirements and reputation for quality and price.

During the construction phase, a project team (consisting of a project manager, site engineers, quantity surveyors, procurements and design staff) is assigned for each development. These project teams, under the direction of the respective project directors, manage the project development process, ensure the quality and timely completion of each project and control the costs according to the approved budget. They are supported by external design consultants, construction work supervision engineers required by the PRC government and quantity surveying consultants. The project teams are further supported by sales and marketing, corporate finance and development, finance and accounting, research and strategic planning, legal, public relations and branding and communications personnel. Each project team is required to plan and perform incoming material inspection/testing and control the in-process and final inspection/testing works prior to handing over of the completed units to the customers in accordance with the ISO 9001:2008 procedures and the Company's quality management system.

Pre-sales, sales and marketing

Upon satisfaction of certain requirements set out in the relevant laws and regulations, we typically conduct pre-sales of our property units prior to the completion of a project or a project phase. All of the proceeds from the pre-sales of our properties are required to be deposited into special accounts. Before the completion of the pre-sold properties, the proceeds deposited in the special accounts may be used for the restricted purposes of purchasing construction materials, equipment, making interim construction payments and paying taxes, with the prior approval of the relevant local authorities and/or project financing banks.

We have a team of sales and marketing personnel located in Shanghai, Chongqing, Wuhan, Foshan and Dalian who are responsible for the branding, positioning and sales and marketing of our property developments. Our sales and marketing functions are delegated in part or in whole to our subsidiaries which specialize in marketing and sales. The sales and marketing staff cooperate and coordinate closely in order to determine and execute appropriate advertising and sales plans for a particular property development.

By nature, property sales generally involves sales to a diverse group of purchasers. Due to the high capital outlay involved in property purchases, we expect that sales to purchasers may not be recurrent within a single year such that any one purchaser cannot be meaningfully considered as a "major customer".

An important part of our sales and marketing process is the branding and positioning of our property developments before and after their completion. During the planning and design phase, our sales and marketing personnel work closely with our planning and business development staff to develop the branding and positioning of each property development. This process includes a determination of the target customers of each project, as well as strategies to maximize usage of and turnover from the property. In our city-core property developments, such as our Shanghai Taipingqiao and Shanghai KIC projects, the branding and positioning process is designed to build a particular type of community and lifestyle. After completion of a project, our sales and marketing staff also develop advertising, sales and rental plans for the office, retail, cultural and entertainment properties held for rental, and for the residential properties sold.

We use various advertising media to market our property developments, including newspapers, magazines, television, radio, direct mail, e-marketing and outdoor billboards. We also participate in real estate exhibitions to enhance our brand name and promote our property developments.

We set up on-site reception centers to display information relating to the relevant property development and off-site promotional centers in areas frequented by targeted customers in circumstances where on-site reception centers may not be suitable.

Property management and after sales services

We emphasize customer service and efficient and effective maintenance services for our completed projects. Our property management staff also assist the project teams in handover inspections and the follow-up work required on our completed projects.

In accordance with local regulations, we manage properties developed by us on behalf of our customers until the owners' committee of the relevant property is established and a new property manager is appointed. With respect to our completed residential property developments, the owners of units in these developments are free to choose their own property management company upon establishment of a homeowners' organization but, to date, most of our completed residential properties are managed by Shanghai Feng Cheng Property Management Company Limited, one of our wholly owned subsidiaries. We are committed to enhancing the value of our projects on a continuing basis through comprehensive management of our properties.

We conduct customer satisfaction surveys regularly on our hand-over projects and our property management services to identify areas that could be further improved to enhance customer satisfaction.

JOINT VENTURE ARRANGEMENTS

Our joint venture partners

Each of our joint venture partners in China is an associated enterprise of the local district government in the area where the development project is located. We have established subsidiaries in Hong Kong, Mauritius and the British Virgin Islands to enter into the relevant joint venture contracts with our joint venture partners in China.

Capital contributions

Except for Hangzhou Scenic Garden Development Corporation Ltd., our cooperative joint venture partner of Hangzhou Xihu Tiandi Management Co., Ltd., which contributed the operating rights of the buildings at Phase 1 of the Hangzhou Xihu Tiandi project as its capital contribution, our other joint venture partners make their capital contributions in cash in amounts proportionate to their percentage of equity interests specified in the relevant joint venture contracts.

In addition, the Chinese joint venture partners are generally responsible for, among other things, the following:

- assisting the project companies in applying for relevant government approvals and permits for the establishment and operation of the project companies; and
- liaising among the joint venture partners, the project companies and the relevant government authorities to ensure efficient operation of the project companies and the relevant development projects.

Apart from making cash contributions in accordance with the percentage of our equity interest in the relevant joint ventures, we are generally required to:

- prepare application documents for the establishment of the project companies, including, among others, feasibility studies, joint venture contracts and articles of association;

- establish financial reporting and accounting systems in accordance with international standards; and
- assist the project companies in obtaining the financing necessary for their operations and the relevant development projects.

Profit sharing and assets distribution

Except as described below, our joint venture partners in China are generally entitled to share distributable profits according to their respective percentage of ownership specified in the relevant joint venture contract.

Hangzhou Scenic Garden Development Corporation Ltd., our joint venture partner of Hangzhou Xihu Tiandi Management Co., Ltd., is entitled to a fixed annual distributable profit, or 50% of the total annual distributable profit if it exceeds a certain amount.

Trillion Full Investments Limited and Metro Land Corporation, joint venture partners of Shanghai Li Xing Hotel Co., Ltd., are not entitled to the distributable profits generated by Langham Xintiandi Hotel.

Upon the expiration of all the equity joint venture contracts (including any extension thereof), the joint venture parties will generally share the proceeds from the liquidation of the relevant project companies according to their respective percentage of ownership.

Board representation and management

The board of directors of each joint venture is the highest decision-making authority of each of our joint ventures. In general, the board of directors of our joint ventures consists of three to seven directors, and the voting power to appoint the directors correspond to the respective percentage of ownership of the joint venture partners.

We have majority interests in all of our joint ventures and can appoint the chairman of each of these joint ventures except for the four joint venture companies for the development of the Dalian Tiandi project in which we have an attributable interest of 48%.

The general managers and, in some cases, one or more deputy general managers are in charge of day-to-day operation and management of our joint ventures. We appoint the general manager of each joint venture.

Term of operation and termination

Our PRC joint ventures have a term of operation ranging from 20 to 70 years commencing from the date of establishment of the joint venture, subject to extension upon the unanimous consent of its board of directors and the approval by the original examination and approval authorities.

Each of our PRC joint ventures may be terminated upon the unanimous consent of its board of directors and the approval of the original approval authority.

Except for Hangzhou Xihu Tiandi Management Company Limited, Shanghai Rui Hong Xin Cheng Co., Ltd. and Shanghai Lixing Hotel Co., Ltd., each of our joint ventures may be terminated by either party if any of the following events occurs:

- the other party to the joint venture materially breaches the joint venture contract and fails to rectify the breach within 90 days or causes the joint venture to be inoperable or unable to achieve its business goals, as the case may be;

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- the joint venture or either party to the joint venture becomes insolvent, is under liquidation or dissolution proceedings, ceases operation, or is unable to repay its debts when due;
- an event of force majeure lasts more than three months, as the case may be, and the parties to the joint venture fail to reach a fair resolution; or
- any other events as set out in the relevant PRC laws and regulations.

Hangzhou Xihu Tiandi Management Company Limited and Shanghai Rui Hong Xin Cheng Co., Ltd. may be terminated by either party to the joint venture if the other party materially breaches the joint venture contract or the articles of association, and such breach causes the joint venture to be inoperable or unable to achieve its business goals. Shanghai Lixing Hotel Co., Ltd. may be terminated if all the shares are held beneficially by one party.

TENANTS AND LEASES

We usually retain ownership of our office, retail, cultural and entertainment buildings, renting these out to tenants. We seek to maintain long-term relationships with our tenants and to maintain a good balance in their composition.

Our leases are generally for terms of 24 to 36 months (up to 120 months for anchor tenants, with rental escalation and/or review provisions) and typically require security deposits of three months' rent. The rental we receive under certain leases with restaurant and entertainment properties are based on a participation in the turnover of the businesses.

Rents are typically set based on prevailing market rates, and the rents payable by our retail tenants often include a turnover component. Our tenants are generally charged a monthly management fee, which covers building maintenance expenses and air-conditioning services. Tenants are also required to pay their own utility charges.

We regularly monitor the creditworthiness and payment history of the tenants of our retail properties. We may elect not to renew the leases of retail tenants whose creditworthiness or payment history is lagging, in order to improve our rental income.

FINANCING

We have three main sources of funding for our property development: internal resources, offerings of equity or debt securities and secured or unsecured loans. Our financing methods vary from project to project. Our project construction loans are generally secured by mortgages over the land use rights of the project companies, our equity interests in the project companies, insurance over their assets and properties, the proceeds of the rental and sale of our completed properties and bank accounts. We also obtain loans from non-controlling interest shareholders for the development of co-investment projects.

Our memorandum and articles of association do not limit the amount or percentage of indebtedness that we may incur. However, certain agreements relating to our borrowings contain customary restrictions, requirements and other limitations on our ability to incur indebtedness.

QUALITY MANAGEMENT

We establish and implement procedures and systems in accordance with the requirements of ISO 9001:2008 to monitor the different aspects of our project management activities in design, quantity surveying, procurement, construction and maintenance works. Regular audits are conducted to ensure compliance by the respective departments and projects.

The quality management of each of our projects is headed by the respective project management team and performed in accordance with approved ISO procedures and systems to ensure compliance with the specifications of our projects. We construct and approve specific mock-ups to establish the quality standard required for each project before mass construction begins. We regularly monitor and assess the performance of the design consultants, other consultants, contractors and material suppliers to ensure that they meet the specified requirements and appropriate follow-up action is taken against, and penalties imposed on, those that do not meet the required standards.

We place strong emphasis on quality management to ensure that the quality of our projects complies with relevant regulations and meets market standards and customers' expectations. Records that are necessary to provide evidence of conformity and the performance of quality control activities are required to be kept in related functional departments of each project. Each project is also subject to the supervision of the appointed construction work supervision engineer, as required by PRC government regulations. An independent inspection unit is also hired to perform the final inspection and testing works in addition to the effort by the project team. Defects found during handover inspection and during the maintenance period are recorded in the Warranty and Maintenance System for follow-up action and as a statistical tool for improvement actions. We employ a third party quality consultant to conduct regular quality assessments of each project during construction phase. Assessment reports will be prepared for the respective project managers, project general managers, project directors responsible for the projects and top management. We offer a quality incentive scheme to contractors and the construction work supervision engineer when their projects achieve both our third party quality assessment target score and our project handover quality targets. The assessment scores of each project are also used as a basis for measuring performance of the responsible project team.

SUSTAINABILITY DEVELOPMENT AND SAFETY MATTERS

As a socially responsible property developer, we have always firmly believed that sustainability is key to the long-term development of both our enterprise and society. We announced our Sustainable Development Policy in 2006 and formed the Sustainable Development Committee to integrate sustainability principles into the policy-making process. In the seven years since its formation, this committee has held regular meetings and implemented a series of sustainability measures, extending the sustainability concept to the Group's individual projects. In 2012, we set the "Six Major Goals of Sustainable Development" to refine the details of promoting sustainable development, which are:

- All large-scale master-planning projects should obtain their LEED-ND certification
- All newly-built commercial projects should be certified by LEED or by China Green Buildings ("CGB")
- All newly-built residential projects should be certified by CGB
- All residential projects provide well-decorated units when being handed over
- All operating real estate developments will reduce their carbon emissions by 20% from 2011 to 2016
- All newly-built commercial projects should be equipped with energy-consumption monitoring systems

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Our projects have achieved various leading national and international green certifications such as Leadership in Energy & Environment Design (LEED), Chinese Technical Standard for Performance Assessment of Residential Buildings and the Evaluation Standard for Green Building. Details of our sustainable development initiatives are in the table below:

Sustainable Development Initiatives

Corporate	Achieve/Target — Green Building Certification
1 Shui On Land Ltd HQ - 26/F, Shui On Plaza	Achieved LEED — Commercial Interiors (CI) Certification Silver level
2 Shui On Land Ltd HQ - 25/F, Shui On Plaza	Achieved LEED — Commercial Interiors (CI) Certification Silver level
3 KIC Project Office-KIC Plaza Building 10	Achieved LEED — Commercial Interiors (CI) Certification Gold level
4 Chongqing Project Office - Lot B12/01	Target to achieve LEED — Commercial Interiors (CI) Certification Gold level
Projects — Master Planning Stage	Achieve/Target — Green Building Certification
1 Wuhan Tiandi	Achieved LEED — Neighborhood Development Pilot Version Stage 2 Gold level (Pre-certification)
2 Chongqing Tiandi	Achieved LEED — Neighborhood Development Pilot Version Stage 2 Gold level (Pre-certification)
3 Dalian Tiandi	Registered for LEED — Neighborhood Development (ND)
4 Foshan Lingnan Tiandi	Achieved LEED — Neighborhood Development 2009 Version Stage 2 Gold level (Pre-certification)
5 Rui Hong Xin Cheng	Achieved LEED — Neighborhood Development 2009 Version Stage 2 Gold level (Pre-certification)
6 Shanghai Taipingqiao	Registered for LEED — Neighborhood Development (ND) 2009 Version
Projects — Development Stage	Achieve/Target — Green Building Certification
1 Wuhan Tiandi Lot A4, Wuhan (Entertainment & Retail)	Achieved LEED — Core & Shell (CI) Certification Gold level
2 Wuhan Tiandi Lot A5, Wuhan (Office)	Achieved LEED — Core & Shell (CS) Certification Gold level
3 Wuhan Tiandi Lots A1/2/3, Wuhan (Office; Hotel & Retail)	Achieved BREEAM Pre-certification “Very Good” level
4 Wuhan Tiandi Lot A1, Wuhan (Office & Hotel)	Registered for LEED — Core & Shell (CS) Certification
5 Wuhan Tiandi Lot B9, Wuhan (Residential)	Achieved Chinese Green Building 2 Star rating
6 Wuhan Tiandi Lot B11, Wuhan (Residential)	Achieved Chinese Green Building 2 Star rating

Projects — Development Stage	Achieve/Target — Green Building Certification
7 Wuhan Tiandi Lot B20 Club House, Wuhan (Residential)	Achieved Chinese Green Building 3 Star rating
8 Wuhan Tiandi Lot B13/B17, Wuhan (Residential)	Achieved Chinese Green Building 2 Star rating
9 Chongqing Tiandi Lots B3/01, Chongqing (Entertainment & Retail)	Achieved LEED — Core & Shell (CS) Certification Gold level
10 Chongqing Tiandi Lot B11, Chongqing (Office; Hotel & Retail)	Achieved LEED — Core & Shell (CS) Pre-certification Gold level
11 Chongqing Tiandi Lot B12-1/02, Chongqing (Office)	Achieved LEED — Core & Shell (CS) Certification Gold level
12 Chongqing Tiandi Lot B12-3/02, Chongqing (Retail)	Achieved LEED — Core & Shell (CS) Pre-certification Gold level
13 Chongqing Tiandi Lot B12-4/02, Chongqing (Retail)	Achieved LEED — Core & Shell (CS) Pre-certification Gold level
14 Chongqing Tiandi Lot B13, Chongqing (Office & Retail)	Target to achieve LEED — Core & Shell (CS) Certification Gold level
15 Shanghai Taipingqiao Lot 126, Shanghai (Office & Retail)	Achieved LEED — Core & Shell (CS) Pre-certification Gold level and Chinese Green Building 3 Star rating. This is the first high-rise building to be qualified by using Green High-rise Building Evaluation Technical Details
16 Shanghai Taipingqiao Lot 127, Shanghai (Office & Retail)	Achieved LEED — Core & Shell (CS) Pre-certification Gold level and passed the professional assessment for the Chinese Green Building 3 Star rating
17 Rui Hong Xin Cheng Lot 4, Shanghai (Residential & Retail)	Achieved Chinese Green Building 2 Star rating. On November 15, 2010, awarded allowance from Shanghai Government as an energy-saving housing project
18 Rui Hong Xin Cheng Lot 6, Shanghai (Residential)	Achieved Chinese Green Building 2 Star rating
19 Rui Hong Xin Cheng Lot 3, Shanghai (Retail)	Achieved LEED — Core & Shell (CS) Pre-certification Gold level. Target to achieve Chinese Green Building 2 Star rating
20 Rui Hong Xin Cheng Lot 10, Shanghai (Retail)	Target to achieve LEED — Core & Shell (CS) Certification Gold level. Target to achieve Chinese Green Building 2 Star rating
21 KIC Plaza Phase II, Shanghai (Office)	Achieved LEED — Core & Shell (CS) Pre-certification Silver level
22 KIC Lots 5-5/5-7/5-8, Shanghai (Office)	Achieved LEED — Core & Shell (CS) Pre-certification Gold level
23 KIC Village Phase II, Lots 7-7/7-9, Shanghai (Office & Residential)	Achieved Chinese Green Building 2 Star rating

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Projects — Development Stage	Achieve/Target — Green Building Certification
24 KIC Lots 5-3/6-1, Shanghai (Office)	Target to achieve LEED — Core & Shell (CS) Certification Platinum level. Target to achieve Chinese Green Building 2 Star rating
25 KIC Lot C3-05, Shanghai (Office)	Target to achieve Chinese Green Building 2 Star rating
26 KIC Lots C3-04/3-07/3-08, Shanghai (Residential)	Target to achieve Chinese Green Building 2 Star rating
27 Dalian Tiandi Aspen and Maple Towers, Site D22, Dalian	Achieved LEED — Core & Shell (CS) Pre-certification Silver level
28 Dalian Tiandi Site D14, Dalian	Achieved LEED — Core & Shell (CS) Pre-certification Gold level
29 Dalian Tiandi Site B07, Dalian	Target to achieve LEED — Core & Shell (CS) Certification Gold level
30 THE HUB D17, Shanghai (Office; Hotel & Retail)	Achieved LEED — Core & Shell (CS) Pre-certification Gold level, and achieved Chinese Green Building 3 Star rating (for Office & Retail); and passed the professional assessment for the Chinese Green Building 2 Star rating (for Hotel)
31 THE HUB D19, Shanghai (Office; Retail & Exhibition)	Achieved LEED — Core & Shell (CS) Pre-certification Silver level. Target to achieve Chinese Green Building 3 Star rating (for Office & Exhibition). Target to achieve Chinese Green Building 2 Star rating (for Retail)
32 Foshan Lingnan Tiandi Lot 4, Foshan (Residential & Retail)	Achieved Green Community Certification of Guangdong Province
33 Foshan Lingnan Tiandi Lot 5, Foshan (Residential)	Achieved Green Community Certification of Guangdong Province

As an operator and property developer in the PRC, we are subject to various environmental laws and safety regulations set by the PRC national, provincial and local governments. These include regulations on air and noise pollution and discharge of waste and water into the environment. We incorporate such requirements into our construction contracts and our project teams monitor their implementation. In addition to the basic statutory requirements, we incorporate pay for health, environmental and safety scheme into contracts with our contractors to encourage them to enhance the health, safety and environment condition in and around their construction site during the whole construction period.

EMPLOYEES

As of December 31, 2013, the number of employees in the Group was 1,140. In addition, the headcount of the property management business was 1,569. The following table sets out the number of our employees categorized by function as of that date:

Department	No. of employees
Management	31
Sales and Marketing	129
Research and Development, Planning & Design	96
Project Construction and Engineering	323
Quantity Survey and Procurement	110
Operation Management	38
Finance & Accounting	121
Human Resources	36
Legal	37
Administration & IT	124
Corporate Development, PR and Corporate Communication & Branding	48
Food & Beverage	0
Kindergarten	47
Total	1,140

Employee benefits

We provide comprehensive benefit package for all employees, as well as career development opportunities. This includes retirement schemes, share option scheme, medical insurance, other insurance, in-house training, on-the-job training, external seminars and programs organized by professional bodies and educational institutes.

We strongly believe in the principle of equality of opportunity. The remuneration policy of the Group for rewarding its employees is based on their performance, qualifications and competency displayed in achieving the corporate goals.

Training and development

We formed the Shui On Academy in 2008 to provide systematic learning programs for our employees in four areas: core knowledge (company and industry), management, professional and personal excellence. The learning experiences cover in-house programs, external training, e-learning and on-the-job learning. We partner with leading institutions to bring in outside best practices. Additionally, staff have the opportunity to participate in innovative learning practices such as action learning projects that challenge learners to apply their new knowledge and skills to real-life business issues. Finally, we have several training programs that focus on accelerating the capability of high-potential staff.

To ensure the sustainable growth of the Group, we offer different trainee programs designed to help identify high-calibre employees at early stages in their careers and prepare them to take up management and leadership responsibilities through custom-made training programs.

Management Cadet (“MC”) Program

This fast track development program was established in 2002 to help employees take up core management positions in an accelerated time frame. The program is open to all internal staff who have at least three years of working experience and have the potential for development. A rigorous, fair and transparent process is used to select the best candidates with senior management to take part as assessor. Once accepted into the program, MCs are given challenging job assignments and/or postings to increase the breadth and depth of their understanding of our operations and business. Mentored by members of the top management, including CEO and directors, MCs are given learning opportunities through special assignments and privileged exposure to high level meetings and contacts, knowledge and experience sharing sessions, internal and external workshops, as well as overseas programs and visits.

Functional Executive (“FE”) Program

Established in 2009, the Functional Executive Program is designed to develop professionals and managers eventually to take on senior functional positions. A customized training program will be designed for each FE.

Management Trainee (“MT”) Program

Established in 1997, this program puts recent university graduates on the road to future management positions. Beginning with an intensive 6-week induction period that takes the trainees across the country to all of the cities with our projects, trainees are also given an in-depth understanding of the business through half-day seminars with each of the company’s departments. These promising graduates are expected to form the backbone of our management team and must go through a three-year program that includes personal development, management skills training and job rotations. Each trainee is assigned a senior manager as a mentor who provides guidance and career development counseling. Upon successful completion of the program, MTs are assigned to a first line management position.

Graduate Trainee (“GT”) Program

This program was established to prepare recent graduates for professional positions by acquiring technical/professional knowledge and management skills through a structured and systematic on-the-job development program. Graduate Trainees go through the same intensive six-week induction period as the Management Trainees, but while the duration of the GT program varies by professional stream, all GTs are rotated to different positions within their field, including a six-to-twelve-month secondment to an external professional institution or consultancy for some streams. In 2009, we expanded the program beyond Project Management and recruited its first batch of Commercial, Legal, Human Resources, and IT trainees. At the same time, this program was also extended to existing employees with outstanding performance records.

Summer Internship Program

Established in 2001, the program provides four to eight weeks of summer internship opportunities for university students from both Hong Kong and China. Students with outstanding performance records have the opportunity to apply for the “Green Path” to obtain fast access to the MT/GT recruitment process.

Relationship with our employees

We maintain good working relations with our employees. We sponsor a number of employees' self-organized social clubs and task forces and provide support in organizing and promoting staff social activities and community services. We have not suffered from any material disruption to our normal business operations as a result of any labor dispute, strike or employee dispute.

COMPETITION

We believe that the real estate market in the PRC is highly fragmented. While there are a number of competitors who may target different segments and regions of the PRC real estate market from us, we currently are not aware of other property developers with the same record of property development coupled with master planning expertise relating to large-scale integrated property projects in the PRC.

On a city and district level, however, we face varying levels of competition for our products, depending on the location and positioning of our projects. Our existing and potential competitors in each city and district include major domestic state-owned and private developers in the PRC, as well as developers from Hong Kong and elsewhere in Asia and other parts of the world. See "*Risk Factors — Risks relating to our industry — Increasing competition in the PRC property market may adversely affect our business and financial condition*".

NON-COMPETITION AGREEMENT

We have entered into a non-competition agreement with Mr. Lo and SOCL, to govern the conduct of the following activities in the PRC between Mr. Lo and the Shui On Group on the one hand, and us on the other:

- the acquisition, development or dealing in land, real estate or investments in land or real estate, or any option or right in relation to any of such interests;
- the development of real estate projects, or acquiring or holding any right, option or other interest in such developments;
- property management; and
- acquisition, holding or dealing in any shares of, or interest in, any company, investment trust, joint venture or other entity which engages in any of the above businesses (together, the "**Defined Business**").

Under this agreement, Mr. Lo and SOCL have undertaken that we shall be the flagship company of the Shui On Group for its property development and investment business in the PRC. In particular, they have undertaken on a several basis, subject to the exceptions referred to below, that they shall not, and will ensure that no company controlled by Mr. Lo (other than SOCAM or its subsidiaries) (the "**Associated Companies**") or in the Shui On Group shall carry on or engage, invest, participate or be interested (economically or otherwise) in any Defined Business in the PRC. Mr. Lo and SOCL have further undertaken to ensure that any business investment or other commercial opportunity in the PRC relating to the Defined Business (the "**New Opportunity**") that Mr. Lo (or his Associated Companies) or the Shui On Group identifies or that is offered to them by a third party are first referred to us.

BUSINESS

The non-competition agreement will terminate upon the earlier of:

- In relation to SOCL, the date when SOCL ceases to control, directly or indirectly, 30% or more of our Shares;
- In relation to Mr. Lo, the date when Mr. Lo ceases to control, directly or indirectly, 30% or more of our Shares; or
- The date when our Shares cease to be listed on any internationally recognized stock exchange (provided that such delisting is voluntary and at our instigation).

RELATIONSHIP BETWEEN THE GROUP AND CHINA XINTIANDI GROUP

From the closing of the Brookfield Investment until a listing of China Xintiandi on the Hong Kong Stock Exchange or any other recognized investment exchange has occurred:

- the Group will engage in the development of properties in the PRC; CXTD Holding and its subsidiaries (“**China Xintiandi Group**”) will engage in the investment and management of commercial properties in the PRC, and each will refer to the other opportunities in the other group’s business scope (with certain exceptions); and
- the Group will grant the China Xintiandi Group a right-of-first offer over commercial properties to be sold by the Group to independent third parties (with certain exceptions).

LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims that arise in the ordinary course of business such as disputes with tenants of our office and commercial properties and disputes with the owners of units in our residential properties. However, as of the date of this Offering Memorandum, we are not subject to any material litigation which, if determined adversely against us, would have a material adverse effect in our results of operation or financial position.

INTELLECTUAL PROPERTY RIGHTS

We rely on a combination of trademarks, service marks, domain name registrations, copyright protection and contractual restrictions to establish and protect our brand name and logos, marketing designs and Internet domain names.

We have registered trademarks relating to our business in the PRC. Some of these marks will also be registered, or are in the process of being registered, in Hong Kong where we believe it is important to establish our right to use these marks. We have also registered the Internet domain name “shuion.com.cn” and other related domain names.

Our trademark advisor, Shanghai Changan Trademark Service Company Limited, has advised us that we cannot apply for registration in the PRC of our corporate logo in our name because the trademark is too similar to the seagull logo used by the Shui On Group, which is already registered in the name of Shui On Holdings Limited, a member of the Shui On Group, and that both logos must be registered in the name of one entity pursuant to PRC law. Shui On Holdings Limited has successfully completed the registration of our corporate logo in the PRC in its name.

We have entered into a licensing arrangement with Shui On Holdings Limited with regards to our exclusive right to use our corporate logo for all purposes in the PRC. The license is royalty-free for a term of 10 years from May 30, 2006 and can be renewed by notice from either party.

The Shui On Group has transferred certain trademarks and domain names to us. The Shui On Group is not entitled to use the same trademarks and domain names as used by the Group.

INSURANCE

We maintain insurance policies with insurance companies in the PRC which cover property damage due to natural hazards, including lightning, typhoons, tornadoes, floods, landslides and other natural phenomena, and accidents, including fire and explosion, and general liability under property all risk insurance, business interruption insurance, public liability insurance and money insurance. As of December 31, 2013, we have not experienced any significant loss or damage to our properties.

We maintain all risk and third party liabilities insurance coverage for our properties under construction, including those that have been completed and are pending delivery, subject to customary deductibles, limitations and exclusions. There are no mandatory requirements to maintain insurance coverage in the PRC with respect to our property development operations. Since January 1, 2002, we have not suffered any losses or damages or incurred any liabilities relating to our properties that had a material adverse effect on our business.

PROPERTIES OCCUPIED BY US

Our principal office and corporate headquarters are located at Shui On Plaza, 25th and 26th Floor, 333 Huai Hai Zhong Road, Shanghai, PRC. Our headquarters, which comprise approximately 5,148 sq.m., are staffed by our management and office personnel. We also maintain offices located at or close to each of our project sites, which are used by our project teams, as well as sales and rental offices. Of these offices, our headquarters, the Shanghai Taipingqiao, the Shanghai Rui Hong Xin Cheng, Shanghai KIC, Foshan and Dalian offices are located on properties owned by us, THE HUB, Chongqing and Wuhan offices are located in leased premises not owned by us.

PROPOSED SPIN-OFF OF CHINA XINTIANDI AND BROOKFIELD INVESTMENT

On May 28, 2012, Shui On Land announced its plans to dispose of part of Shui On Land's interest in China Xintiandi, a wholly owned subsidiary of Shui On Land, by way of the Proposed China Xintiandi Spin-off, and has submitted a listing application to the Hong Kong Stock Exchange for the shares of China Xintiandi in connection with the Proposed China Xintiandi Spin-off.

To unlock the underlying asset value of the Group's portfolios, China Xintiandi began operations as a separately managed, wholly owned subsidiary of the Group on March 1, 2013, as part of the process for the proposed China Xintiandi Spin-off. We, from an operational point of view, will become a developer focusing on property development and property sales to increase the asset turnover of the Group, leaving the asset management role to China Xintiandi. China Xintiandi will focus principally on managing, designing, leasing, marketing, enhancing and redeveloping premium retail, office, entertainment and hotel properties in affluent urban areas in China. We believe that this arrangement will enable us and China Xintiandi to focus on each of its respective separate and distinct core businesses.

On October 31, 2013, Shui On Land announced that it and CXTD Holding had entered into the Brookfield Investment Agreement with, amongst others, Brookfield. Pursuant to the Brookfield Investment Agreement, Brookfield agreed amongst other things to an initial investment into CXTD Holding and Shui On Land in an aggregate amount of US\$500 million in return for (1) convertible perpetual securities of CXTD Holding in an aggregate principal amount of US\$500 million (for US\$471 million to be paid to CXTD Holding) and (2) 415 million warrants to subscribe for ordinary shares in the capital of Shui On Land (for US\$29 million to be paid to Shui On Land). Following the Group Restructuring that was completed on January 20, 2014, the Initial Portfolio and certain other commercial property assets of the Group are held by CXTD Holding and its subsidiaries. In addition,

in accordance with the terms of the Brookfield Investment Agreement or otherwise, the Group may transfer to CXTD Holding and its subsidiaries, additional assets, which include the Group's investment properties and fixed assets to the extent that they comprise commercial real estate and, in each case, any connected or ancillary assets and related working capital. On February 17, 2014, Shui On Land announced that the Initial Brookfield Investment had been completed. At the closing for the Initial Brookfield Investment, two senior managing directors of Brookfield were appointed as directors of CXTD Holding and Shui On Land entered into certain agreements with CXTD Holding.

To facilitate the Brookfield Investment and the Proposed China Xintiandi Spin-off, the Issuer sought and obtained consents from the holders of the 7.625% Senior Notes and the 9.75% Senior Notes to amend the indentures and obtained approval from the holders of the 10.125% Perpetual Capital Securities to amend the terms and conditions and trust deed. Additionally, Shui On Singapore sought and obtained consents from holders of the 8% Senior Notes to amend the indenture for these notes. Pursuant to the supplemental indentures executed on December 18, 2013 with respect to the 7.625% Senior Notes, 8% Senior Notes and 9.75% Senior Notes and amended trust deed executed on December 18, 2013 of the 10.125% Perpetual Capital Securities, the Issuer has additional flexibility, among other things, to redesignate China Xintiandi, CXTD Holding and/or any of their subsidiaries as "Unrestricted Subsidiaries", to enter into arrangements (including in relation to the transfer of assets) with CXTD Holding and its subsidiaries and to allow certain additional categories of "Permitted Investments", "Permitted Indebtedness" and "Permitted Liens". By a resolution of the board of directors of the Issuer passed on January 23, 2014, CXTD Holding and its present and future subsidiaries were for the purposes of the 7.625% Senior Notes, 8% Senior Notes, 9.75% Senior Notes and 10.125% Perpetual Capital Securities, redesignated as "Unrestricted Subsidiaries".

In connection with the transactions described above, we may consider other equity or debt investments from third parties in China Xintiandi and/or any of its subsidiaries. We may also consider making strategic disposals of certain assets to third parties. There is no assurance that the Proposed China Xintiandi Spin-off or the Additional Brookfield Investment will occur at all or, if they occur, when they may occur. The Proposed China Xintiandi Spin-off is subject to, among other things, the approval by the Listing Committee of the Hong Kong Stock Exchange, the final decisions of the board of directors of Shui On Land and of the board of directors of China Xintiandi, the approval of the shareholders of Shui On Land and consents from certain of our lenders and joint venture partners.

Additional details of these transactions described above are set out in the announcements of Shui On Land, which are published and available on the website of the Hong Kong Stock Exchange.

MANAGEMENT

DIRECTORS

Our Board currently consists of nine Directors, comprising three Executive Directors, one Non-executive Director and five Independent Non-executive Directors.

The following table sets out the names, ages and positions of our Directors as of the date of this Offering Memorandum:

Name	Age	Position
Mr. Vincent H. S. LO, GBS, JP	65	Chairman and Executive Director
Mr. Daniel Y. K. WAN	55	Executive Director, Managing Director and Chief Financial Officer
Mr. Philip K. T. WONG	57	Executive Director and Managing Director
Mr. Frankie Y. L. WONG	65	Non-executive Director
Sir John R. H. BOND	72	Independent Non-executive Director
Dr. William K. L. FUNG, SBS, JP	65	Independent Non-executive Director
Professor Gary C. BIDDLE	62	Independent Non-executive Director
Dr. Roger L. McCARTHY	65	Independent Non-executive Director
Mr. David J. SHAW	67	Independent Non-executive Director

Executive Directors

Mr. Vincent H. S. LO, GBS, JP, aged 65, has served as our Chairman since the inception of our Company in February 2004. Mr. Lo leads the Board of Directors in deciding on the Company's direction and to set corporate strategies. Mr. Lo was the Chief Executive Officer of our Company from 2004 to March 16, 2011. He is also the Chairman of the Shui On Group, which he founded in 1971, Chairman of SOCAM Development Limited, a Non-executive Director of Great Eagle Holdings Limited and a Non-executive Director of Hang Seng Bank Limited. Mr. Lo was honored with the "Ernst & Young China Entrepreneur Of The Year 2009" and also, as "Entrepreneur Of The Year 2009" in the China Real Estate Sector. He was also awarded the Gold Bauhinia Star (GBS) in 1998 and appointed Justice of the Peace in 1999 by the Government of the Hong Kong Special Administrative Region (HKSAR). Mr. Lo was made an Honorary Citizen of Shanghai in 1999 and Foshan in 2011. He was named Businessman of the Year at the Hong Kong Business Awards in 2001, and won the Director of the Year Award from The Hong Kong Institute of Directors in 2002 and Chevalier des Arts et des Lettres by the French government in 2005. In 2012, the 4th World Chinese Economic Forum honored Mr. Lo with the Lifetime Achievement Award for Leadership in Property Sector. In addition to his business capacity, Mr. Lo has been active in community services. He participated in the preparatory works of the establishment of the Hong Kong Special Administrative Region. He currently serves as a Member of The Twelfth National Committee of Chinese People's Political Consultative Conference, the Hong Kong's representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council, Member of The Airport Authority Hong Kong, the President of Council for the Promotion & Development of Yangtze, an Economic Advisor of the Chongqing Municipal Government, the Honorary Life President of the Business and Professionals Federation of Hong Kong, a Vice Chairman of the Chamber of International Commerce Shanghai and the Honorary Court Chairman of The Hong Kong University of Science and Technology.

Mr. Daniel Y. K. WAN, aged 55, is the Managing Director and Chief Financial Officer of the Company responsible for all aspects relating to our finance and accounting, legal, company secretarial and information technology affairs. He is also responsible for the day to day management of the Company together with the other senior executives. Mr. Wan joined the Company in March 2009. He has extensive experience in the financial industry with over 20 years in senior management position. Prior to joining the Company, Mr. Wan was the General Manager and Group Chief Financial Officer of The Bank of East Asia, Ltd. Mr. Wan holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong and a Master of Business Administration degree from The University of Wales. He is a fellow member of The Association of Chartered Certified Accountants, fellow member of The Hong Kong Institute of Certified Public Accountants and a member of The Institute of Chartered Accountants in England and Wales. Mr. Wan was a member of the Accounting Standards Advisory Panel of the Hong Kong Society of Accountants, member of the Auditing Standards Committee of the Hong Kong Society of Accountants, member of the Board of Review (Inland Revenue), member of the Small and Medium Enterprises Committee, member of the Travel Industry Compensation Fund Management Board, Chairman of the Investment Committee of the Travel Industry Compensation Fund and part-time member of the Central Policy Unit.

Mr. Philip K. T. WONG, aged 57, has been appointed Executive Director and Managing Director of the Company since January 10, 2014. He is currently the Chief Executive Officer of China Xintiandi Limited, a wholly-owned subsidiary of the Company. He takes full charge of the implementation of the business strategy and is responsible for the management and operation of China Xintiandi. Mr. Wong has over 25 years of experience in property development, investment and construction management. Prior to joining China Xintiandi, he was Managing Director and Chief Executive Officer of SOCAM Development Limited (“SOCAM”), also a member of the Shui On Group. Starting his career in the Shui On Group as a graduate engineer, Mr. Wong worked for the Group from 1979 to 1992 to the position of deputy general manager. He rejoined the Group in 2006 to oversee the property division of SOCAM, and successfully led a number of property acquisitions and transactions. He holds a Bachelor of Engineering degree, and is a member of the Dalian Municipal Committee of the Chinese People’s Political Consultative Conference and the Hong Kong Institution of Engineers.

Non-executive Director

Mr. Frankie Y. L. WONG, aged 65, has been appointed as a Non-executive Director of the Company since August 17, 2011 and is Non-executive Director of SOCAM. He was the Vice Chairman of SOCAM from 1997 to 2004 and from April 2010 to August 2011 and the Chief Executive Officer of SOCAM from July 2004 to March 2010. Mr. Wong joined the Shui On Group in 1981. He was a Director of the Company from May 2004 to May 2006 prior to the listing of the Company on The Stock Exchange of Hong Kong Limited in October 2006. He is also one of the Trustees of the Shui On Provident and Retirement Scheme. Prior to joining the Shui On Group, Mr. Wong had many years of banking experience with several major international banks in Hong Kong. He graduated with a Bachelor of Science degree in Economics and a Master of Arts degree from the London School of Economics and Political Science and The University of Lancaster in the United Kingdom respectively. Mr. Wong is currently an Independent Non-executive Director of Solomon Systech (International) Limited, which is listed in Hong Kong, a Non-executive Director of Walcom Group Limited, a company listed on the Alternative Investment Market of the London Stock Exchange plc. and a director of Sichuan Shuangma Cement Co., Ltd. (四川雙馬水泥股份有限公司), a company listed on the Shenzhen Stock Exchange.

Independent Non-executive Directors

Sir John R. H. BOND, aged 72, has served as an Independent Non-executive Director of our Company since September 2006. He was previously the Group Chairman of HSBC Holdings plc and was with HSBC from 1961 until May 2006. He was the Chairman of Vodafone Group Plc until July 26, 2011

and the Chairman of Xstrata plc until May 2013. He is currently a Non-executive Director of A. P. Moller Maersk and an Advisory Director of Northern Trust Corporation. He is also a member of the Mayor of Shanghai's International Business Leaders' Advisory Council, a participant in the China Development Forum, a member of the International Advisory Board to the Tsinghua University School of Economics and Management and a member of the Mitsubishi International Advisory Committee.

Dr. William K. L. FUNG, SBS, JP, aged 65, has served as an Independent Non-executive Director of our Company since May 2006. Dr. Fung has been the Group Chairman of Li & Fung Limited since May 14, 2012 and before that, was the Executive Deputy Chairman (2011 - May 2012) and the Group Managing Director (1986 - 2011) of Li & Fung Limited. He has held key positions in major trade associations. He is past Chairman of the Hong Kong General Chamber of Commerce (1994-1996), Hong Kong Exporters' Association (1989-1991) and the Pacific Economic Cooperation Committee (1993-2002). He has been awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region Government in 2008. Dr. Fung graduated from Princeton University with a Bachelor of Science degree in Engineering and also holds an MBA degree from the Harvard Graduate School of Business. He was conferred Honorary Doctorate degrees of Business Administration by the Hong Kong University of Science and Technology and by the Hong Kong Polytechnic University. Dr. Fung is an Independent Non-executive Director of VTech Holdings Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited and an Independent Director of Singapore Airlines Limited. He is also a Non-executive Director of other listed Fung Group companies including Convenience Retail Asia Limited and Trinity Limited. He is a director of the Fung Global Institute, an independent non-profit think-tank based in Hong Kong.

Professor Gary C. BIDDLE, aged 62, has served as an Independent Non-executive Director of our Company since May 2006. He is PCCW Professor and Chair of Accounting at the University of Hong Kong. He also teaches at Columbia Business School, London Business School and Fudan University. Professor Biddle earned his MBA and PhD degrees at University of Chicago. He has previously served as professor at University of Chicago, University of Washington, Hong Kong University of Science and Technology (HKUST), and as visiting professor at premier business schools globally, including China Europe International Business School (China), University of Glasgow (UK) and IMD (Switzerland). In academic leadership, Professor Biddle served as Dean of the Faculty of Business and Economics of the University of Hong Kong, and as Associate Dean and Department Head of the Business School of HKUST, where he also served as Council member, Court member, Senate member and Synergis-Geoffrey Yeh Chair Professor. Professor Biddle is a Council Member of the Hong Kong Institute of Certified Public Accountants and member of the Financial Reporting Review Panel of the Financial Reporting Council of the Hong Kong Special Administrative Region. He is also a member of the American Accounting Association (International Accounting Section Advisory Board), American Institute of Certified Public Accountants, Contemporary Accounting Research Editorial Board, Hong Kong Business and Professionals Federation, Hong Kong Institute of Directors (Training Committee), Washington Society of Certified Public Accountants, and he is past President and co-founding Council Member of the Hong Kong Academic Accounting Association. Professor Biddle first visited China in 1984 and has made Hong Kong home since 1996. He is expert in financial accounting, economic forecasting, value creation, valuation, corporate governance and performance metrics, including EVA[®], and his research appears in the leading academic journals globally and the financial press including *CNN*, *The Economist* and *Wall Street Journal*. He has won 22 teaching awards. Professor Biddle further proudly serves as Independent Non-Executive Director and Audit Committee Chair of leading listed companies including Kingdee International Software Group Company Limited, and has chaired the remuneration committee of closely held Chinachem Group.

Dr. Roger L. McCARTHY, aged 65, has served as an Independent Non-executive Director of our Company since May 2006. Dr. McCarthy is currently the principal of McCarthy Engineering. He was formerly Chairman Emeritus of Exponent, Inc. (NASDAQ symbol "EXPO"). He was also Chairman of Exponent Science and Technology Consulting Co., Ltd. (Hangzhou) (毅博科技諮詢(杭州)有限公司), a wholly owned subsidiary of Exponent, Inc., which he founded in 2005 to expand Exponent Inc.'s services to the PRC. Dr. McCarthy holds five academic degrees: an Arts Bachelor (A.B.) in Philosophy and a Bachelor of Science in Mechanical Engineering (B.S.E.M.E.) from the University of Michigan; and an S.M. degree in Mechanical Engineering, the professional degree of Mechanical Engineer

MANAGEMENT

(Mech.E.), and a Ph.D. in Mechanical Engineering all from the Massachusetts Institute of Technology (“MIT”). He graduated from the University of Michigan Phi Beta Kappa, summa cum laude, the Outstanding Undergraduate in Mechanical Engineering in 1972. He was a National Science Foundation fellow. In 1992, Dr. McCarthy was appointed by the first President Bush to the President’s Commission on the National Medal of Science. Dr. McCarthy is one of approximately 165 US Mechanical Engineers elected to the National Academy of Engineering. He currently serves on MIT’s Material Science and Engineering Visiting Committee, the External Advisory Board of the Mechanical Engineering Department at the University of Michigan, and the Stanford Material Science & Engineering Advisory Board. Dr. McCarthy delivered the 2008 commencement address for the University of Michigan’s College of Engineering. He is currently a member of the US National Academies Panel on Mechanical Science and Engineering at the Army Research Laboratory (2013-2014 Term) and a member of the National Academy of Engineering/National Research Council/Transportation Research Board (TRB) Evaluation of the Federal Railroad Administration (FRA) Research and Development Program.

Mr. David J. SHAW, aged 67, has served as an Independent Non-executive Director of our Company since May 2006. Mr. Shaw acted as the Group Advisor to the Board of HSBC Holdings plc from June 1998 until September 30, 2013; he continues to act on a part-time basis as adviser to HSBC’s Group Chairman and Group Chief Executive. Mr. Shaw is a solicitor, admitted in England and Wales and in Hong Kong. He was a partner of Norton Rose from 1973 until 1998 and during that period spent approximately 20 years working in Hong Kong. Mr. Shaw obtained a law degree from Cambridge University. He is a Non-executive Director of HSBC Bank Bermuda Limited which is part of the HSBC Group. He is also an Independent Non-executive Director of Kowloon Development Company Limited.

SENIOR MANAGEMENT

Mr. TANG Ka Wah, aged 54, is Director — Chongqing and is also an Executive Director of Shui On Development Limited. He is responsible for all aspects of our project in Chongqing. He joined the Shui On Group in 1985 and has over 28 years of working experience in the construction industry. He is a member of the Institution of Structural Engineers and a member of the Hong Kong Institution of Engineers. Mr. Tang is a chartered engineer. He holds a Bachelor’s degree in Engineering from The University of Hong Kong and a Master’s degree in Business Administration — E-Commerce from the West Coast Institute of Management & Technology, West Australia.

Mr. Charles W. M. CHAN, aged 58, is an Executive Director of Shui On Development Limited (“SOD”), Project Director — KIC Project as well as the Executive Director of Dalian Software Park Shui On Development Ltd. Mr. Chan leads the Shanghai KIC project and works closely with other directors of SOD on the overall management and development of SOD. He also takes the role of Chairman of Dalian Tiandi Executive Committee and is responsible for the development of Dalian Tiandi project. He joined the Shui On Group in January 2004. Prior to joining our Company, Mr. Chan was Deputy Managing Director of Frasers Property (China) Limited, Executive Director of SunCorp Technologies Limited, Vice President of Citibank N.A. and Manager of PricewaterhouseCoopers. He is a fellow of the Hong Kong Institute of Certified Public Accountants and an associate of the Institute of Chartered Accountants in Australia. Mr. Chan holds a Bachelor’s degree in Economics from the University of Sydney.

Mr. Albert K. B. CHAN, aged 54, is the Director of Development Planning and Design. Mr. Chan joined Shui On in 1997, and has more than 25 years of experience in planning, design and real estate development. Mr. Chan manages the conceptualization, site feasibility studies, masterplanning and design of developments for the Company. From 1997 to 2001, he led the planning and design effort for the Shanghai Xintiandi development. He also focuses on mixed-use development, product standardization efforts, and chairs the Sustainable Development Committee of the Company. Prior to joining Shui On, Mr. Chan worked at the New York City Department of Design and Construction and at Cooper, Robertson + Partners. Mr. Chan holds a Bachelor of Architecture degree from the University of Minnesota, a Master of Architecture degree from the University of California,

Berkeley, and a Master of Science degree in Architecture and Urban Design from Columbia University. He also holds an MBA from New York University. He is a Registered Architect of New York State, a member of the American Planning Association, a member of the Urban Land Institute (“ULI”) and a member of its Shanghai Management Committee.

Mr. UY Kim Lun, aged 50, is Director of Legal Affairs and Company Secretary of our Company. He joined our Company in 2005 and is responsible for the legal, company secretarial and compliance issues of our Company. Mr. Uy holds a Bachelor’s degree, with honors, in Laws and a Postgraduate Certificate in Laws from The University of Hong Kong. He was admitted as a solicitor in Hong Kong in 1991 and in England and Wales in 1994. He has over 22 years of post-qualification experience and has worked in the legal departments of several blue-chip companies in Hong Kong before joining our Company.

Mr. Timmy T. M. LEUNG, aged 55, is the Director of Finance of SOD. He is responsible for the finance, accounting and treasury functions of SOD. He joined SOD in 2009 and has over 30 years of working experience in financial institutions. Prior to joining SOD, Mr. Leung was the Chief Marketing Officer of Temasek’s wholly owned subsidiary, Fullerton Investment Guarantee Company. Mr. Leung completed his Business studies in East China University of Science and Technology in Shanghai. He is a Committee member for Shanghai Huangpu District Committee of The Chinese People’s Political Consultative Conference. Mr. Leung was also a Committee member for Hangzhou Committee of The Chinese People’s Political Consultative Conference and Vice President and Head of Finance Group of Hong Kong Chamber of Commerce in China, Shanghai.

Mr. Bryan K. W. CHAN, aged 39, is currently the Project Director for THE HUB. He is fully in charge of the Group’s mixed used development project adjacent to the Hongqiao Transportation Hub in Hongqiao, Shanghai. Mr. Chan joined the Company in February 2009 as Director of Corporate Development. Prior to joining us, Mr. Chan had been an advisor to the Commercial Division of the Company and has extensive experience in both retail and real estate industries. Mr. Chan received a Bachelor of Arts degree in Economics from Northwestern University and a Master’s of Accounting degree from the University of Southern California. He is a member of the Urban Land Institute (ULI), International Council of Shopping Centers (ICSC), Shanghai Youth Federation, Shanghai Youth Entrepreneurs Association and Ming Hang District Political Consultative Committee.

Ms. Jessica Y. WANG, aged 39, is the Project Director for the Rui Hong Xin Cheng project and an Executive Director of SOD. She is responsible for all aspects of our project in Rui Hong Xin Cheng, Shanghai and also certain functions of SOD including branding, corporate communications and public relations, marketing and sales, product development and land acquisition. Ms. Wang joined the Group in August 1997 and has over 19 years of working experience in the property development industry in PRC. Prior to joining the Group, Ms. Wang was engaged in sales & marketing in one of the well-known real estate company. Ms. Wang received a Bachelor of Engineering degree in Shanghai University of Technology. Ms. Wang has completed the courses of Executive Master of Business Administration of Real Estate (EMBA) jointly organized by Shanghai Fudan University and Hong Kong University and the China New Entrepreneur Development Program in Center for Sustainable Development and Global Competitiveness in Stanford University. Ms. Wang is a member of Hong Kou District Political Consultative Committee, Chairman of Hong Kou District Association of Enterprises with Foreign Investment, Director of Shanghai Federation of Industry & Commerce Real Estate Chamber of Commerce, Vice Chairman of Hong Kou District non-Party Intellectuals Association, Chairman of Hong Kou District Overseas Returned Entrepreneurs Association, Director of Hong Kou District Overseas Chinese Friendship Association and a member of Hong Kou District Youth Entrepreneurs Association.

Mr. Matthew Q. GUO, aged 39, is currently the Managing Director of Feng Cheng Property Management and an Executive Director of SOD. He is responsible for all aspects of the property management of Feng Cheng and the human resources, information technology and administrative functions of SOD. Mr. Guo joined the Group in 1997 and he has over 16 years of working experience in the property development industry in the PRC. Mr. Guo was the Project Director of the Wuhan

Tiandi project during the year ended December 31, 2013 and he was also involved in other projects of the Group including Shanghai Xintiandi, Taipingqiao Park, The Lakeville Phase I and the Yangpu Knowledge and Innovation Community project in Shanghai. Mr. Guo holds a Bachelor's degree in urban planning from the Tongji University.

Mr. Raphael S. P. PUI, aged 51, is Director — Commercial. He is currently responsible for the sales and marketing functions of Dalian Tiandi project and Foshan Lingnan Tiandi project. During the year 2013, Mr. Pui was also in charge of the sales and marketing aspects of the Chongqing Tiandi project and the Wuhan Tiandi project. Mr. Pui joined our Company in 2004 and has over 25 years of working experience in the real estate industry. Prior to joining our Company, Mr. Pui took the management role in the asset management function at the American International Assurance Co. Ltd., and The HongKong and Shanghai Hotels, Ltd. Mr. Pui holds a Bachelor's degree in Business Administration at the University of Texas at Austin.

Mr. Charles K. M. LEE, aged 57, is the Director of Human Resources. He joined Shui On Land in May 2012 and is responsible for Human Resources and Shui On Academy of the Company. Mr. Lee has over 25 years of solid experience in human resources management and has worked in various well-known multi-national corporations in different industries. Mr. Lee holds a Master's degree of Science from The University of Leeds and a Bachelor's degree of Science from the Chinese University of Hong Kong. He also holds a MBA from the City Polytechnic of Hong Kong. Mr. Lee is the Executive Council Member of Huang Pu District Association of Labor Relations and member of Hong Kong Institute of Human Resources.

Miss Stephanie B. Y. LO, aged 31, is Director — Product Development for China Xintiandi Limited, a wholly owned subsidiary of the Company. She takes lead in product conceptualization and product positioning for new commercial projects, driving asset enhancement schemes for existing projects with a view to maximizing the value of the Company's asset portfolio. She is the daughter of Mr. Lo. Miss Lo joined our Group in August 2012 and has over 10 years of working experience in architecture and interior design as well as other art enterprises. Prior to joining our Group, Miss Lo was working for various architecture and design firms in New York City, amongst which was Studio Sofield, a firm well-known for its capability in retail design. She holds a Bachelor of Arts degree in architecture from Wellesley College in Massachusetts.

Mr. Thomas Y. W. TAM, aged 52, is currently the Executive Director — Commercial of China Xintiandi. He is responsible for the leasing, branding and marketing of China Xintiandi's office and retail asset portfolios. He joined our Group in 2012. Prior to joining the Group, he was the founder of TCBL Consulting Limited and served as its Joint Managing Director. He has more than 28 years of experience working for major Hong Kong developers and conglomerates, including Cheung Kong Group, CITIC Pacific, and Hongkong Land. Mr. Tam has become involved in China real estate industry since 1993. He holds a Professional Diploma in Estate Management from the Hong Kong Polytechnic University. He is a Member of Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors.

Mr. Alan W. K. TIN, aged 56, is currently the Director — Corporate Services of China Xintiandi responsible for the human resources, administration and IT matters. He joined the Shui On Group in 1989 and has over 25 years of working experience in human resource management. He holds a Master's degree in Business Administration and is a Fellow Member of the Hong Kong Institute of Human Resource Management.

Mr. George W. K. CHAN, aged 56, is currently the Executive Director — Finance of China Xintiandi. He is responsible for the overall finance and accounting functions of China Xintiandi. Mr. Chan initially joined the Group in 2007, left in 2009 and rejoined the Group in August 2013. Immediately prior to rejoining, Mr. Chan was the Chief Financial Officer of Tishman Speyer in China. Previously, he had held senior management positions with various enterprises, including listed companies, across

different industries including the real estate, children's toys and magazine publishing. Mr. Chan is a member of the Institute of Chartered Accountants in England and Wales and holds a Bachelor of Science degree in Economics & Accountancy from The City University, London, United Kingdom and an MBA from The Chinese University of Hong Kong.

Mr. Mario B. YEUNG, aged 51, is currently the Director of Corporate Development of China Xintiandi. He is responsible for the disposal and acquisition strategy, development of investment funds and management of strategic partners for existing and new commercial projects. He joined the Group in July 2010 and has over 15 years of working experience in legal and corporate finance with listed conglomerates and investment banks in Hong Kong prior to joining the Group. He holds a Bachelor's degree of Engineering and Postgraduate Certificate in Laws from Newcastle Upon Tyne Polytechnic and The University of Hong Kong respectively. He is a qualified lawyer in Hong Kong and is a member of The Law Society of Hong Kong since 1999.

BOARD COMMITTEES

Audit Committee

We established an Audit Committee in June 2004. The terms of reference of the Audit Committee have been reviewed from time to time to align with the amendments to the corporate governance provisions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Audit Committee currently comprises three members, namely Professor Gary C. Biddle (Chairman), Dr. Roger L. McCarthy and Mr. Frankie Y. L. Wong, two of whom are Independent Non-executive Directors who possess the appropriate professional qualifications or accounting or related financial management expertise. To retain independence and objectivity, the Audit Committee has been chaired by an Independent Non-executive Director (with appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of our existing external auditors. The primary duties of the Audit Committee are to review and supervise Shui On Land's financial reporting process and internal control system and nominate and monitor external auditors. The Audit Committee also reviews the Company's policies and practices on corporate governance and makes recommendations to the Board.

Remuneration Committee

We established a Remuneration Committee in June 2004. The terms of reference of the Remuneration Committee have been reviewed from time to time to align with the amendments to the corporate governance provisions under the Listing Rules. The Remuneration Committee currently comprises three members, Dr. William K. L. Fung (Chairman), Mr. Lo and Professor Gary C. Biddle. The majority are Independent Non-executive Directors. The primary duties of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration package of our Directors and senior management and evaluate and make recommendations on employee benefit arrangements.

Nomination Committee

We established a Nomination Committee in April 2009. The terms of reference of the Nomination Committee have been reviewed from time to time to align with the amendments to the corporate governance provisions under the Listing Rules. The Nomination Committee currently comprises three members, Mr. Lo, Sir John R. H. Bond and Professor Gary C. Biddle. The majority are Independent Non-executive Directors. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, identify individuals suitably qualified to become members of the Board, and assess the independence of Independent Non-executive Directors.

Finance Committee

We established a Finance Committee in April 2009. The Finance Committee was also constituted in April 2009 with well-defined terms of reference that stipulate and monitor the financial strategies, policies and guidelines of the Group. The Finance Committee currently comprises seven members, Mr. Lo, Sir John R. H. Bond, Dr. William K. L. Fung, Professor Gary C. Biddle, Mr. Daniel Y. K. Wan, Mr. Frankie Y. L. Wong and Mr. Philip K.T. Wong. The primary duties of the Finance Committee are to make recommendations to the Board on financial policies and planning.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of compensation (including fees, salaries, performance related incentive payments, housing allowances, contribution to retirement benefits plans, other allowances and benefits in kind) paid and granted by us to our Directors for each of the years ended December 31, 2011, 2012 and 2013 were approximately RMB21 million, RMB39 million and RMB24 million (US\$3.96 million), respectively.

During the years ended December 31, 2011, 2012 and 2013 and other than as set out above:

- No remuneration was paid by us to or receivable by our Directors as an inducement to join or upon joining us;
- No compensation was paid by us to or receivable by our Directors or past directors for the loss of office as a director or for loss of any other office in connection with the management of our affairs; and
- None of our Directors waived any compensation.

The remuneration of members of our senior management team is determined by the Remuneration Committee of our Board and is reviewed on an annual basis taking into consideration performance criteria such as Shui On Land's operating results, individual performance and comparable market statistics.

The five highest paid individuals of Shui On Land include two Directors for the year ended December 31, 2011, two Directors for the year ended December 31, 2012 and two Directors for the year ended December 31, 2013, whose aggregate compensation has been included in the aggregate compensation of our Directors above. Including the compensation of such Directors, the aggregate amount of fees, salaries, housing allowances, contribution to retirement benefits plans, bonuses paid or receivable, and other allowances and benefits in cash or in kind paid by us to the five highest paid employees during the years ended December 31, 2011, 2012 and 2013 were approximately RMB37.7 million, RMB59.8 million and RMB40.0 million (US\$6.61 million), respectively. No compensation was paid by us to or receivable by such employees for the years ended December 31, 2011, 2012 and 2013 for loss of office in connection with the management of our affairs, or as an inducement to join or upon joining us.

Except as disclosed above, no other payments have been paid or are payable by us or any of our subsidiaries to our Directors, with respect to the years ended December 31, 2011, 2012 and 2013.

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

ESTABLISHMENT OF FOREIGN INVESTED PROPERTY DEVELOPMENT ENTERPRISES

Overview

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

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

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

PROCEDURES FOR ESTABLISHMENT OF A FIE

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

Establishment of a Property Development Enterprise

According to the Law of the People’s Republic of China 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 (“NPC”) on July 5, 1994 and effective on January 1, 1995, and amended on August 30, 2007 by the Standing Committee of the NPC, a property developer is defined as an enterprise which engages in the development and operation of property for the purpose of making profits. Under the Regulations on Administration of Development and Operation of Urban Real Estate (城市房地產開發經營管理條例) (the “**Development and Operation Regulations**”), promulgated and implemented by the State Council in July 1998, and amended on January 8, 2011, an enterprise which is to engage in property development shall satisfy the following requirements: (i) its registered capital shall be RMB 1 million or more; and (ii) have four or more full-time professional property/construction technicians and two or more full-time accounting officers, each of whom shall hold the relevant qualification certificate. The local government of a province, autonomous region or municipality directly under the central government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a property developer. According to The Notice on Relevant Issues on Establishment and Filing of the Property Development Enterprise in Shanghai (上海市工商局、上海市房管局關於房地產開發企業設立和備案有關問題的通知) promulgated jointly by Shanghai Municipal Housing, Land and Resources Administration

Bureau and Shanghai Administration of Industry and Commerce, effective as of January 1, 1995, an enterprise engaging in the property development business shall satisfy the following requirements: (i) the registered capital shall be no less than RMB 5 million; and (ii) such enterprise shall have four or more personnel with at least an intermediate professional qualification.

Under the Notice on Adjusting the Portion of Capital Fund for Fixed Assets Investment (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 portion of capital fund for affordable housing and ordinary housing is 20%, while for other real estate development project, the minimum capital portion is 30%.

To establish a property development enterprise, the developer should apply for registration with the Administration for Industry and Commerce above country level according to the Development and Operation Regulations. The property developer must also report its establishment to the government authority in the jurisdiction where the registration authority is located, 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 sale of property, the relevant requirements of the laws and administrative regulations regarding foreign-invested enterprises must also be observed and relevant examination and approvals be administered and received.

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

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

and administration of foreign capital in the property market must comply with the following requirements:

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

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

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the equity from other Chinese shareholders of a foreign-invested property development enterprise, the original employees of the merged companies must be settled down properly, bank debts must be settled and the entire consideration for the transfer must be paid off at one time with its own capital within three months after the effective date of the equity transfer agreement.

On May 23, 2007, MOFCOM and SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in the Real Estate Sector in the PRC (商務部、國家外匯管理局關於進一步加強、規範外商直接投資房地產業審批和監管的通知), which stipulates the following requirements for the approval and supervision of foreign investment in real estate:

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

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

- MOFCOM shall authorize the provincial counterparts of commerce to supervise the record materials on foreign-invested real estate enterprises. After approval on foreign-invested real

estate enterprises (including but not limited to incorporation of enterprises, increase of the registered capitals, transfer of equity interests, merger and acquisition), the competent commercial department shall present the relevant materials, which should be submitted to MOFCOM for record, to the provincial counterparts of commerce for supervising;

- the provincial counterparts of commerce shall supervise the validity, authenticity and accuracy of the following materials pursuant to requirements as stated in the Circular On Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market and the Notice On Further Strengthening and Regulating the Approval and Supervision On Foreign Investment in the Real Estate Sector in the PRC and the relevant provisions;
- the provincial counterparts of commerce shall cooperate with other relevant provincial departments to supervise relevant materials pursuant to the relevant laws and regulations, then send the fulfilled Filing Form on Foreign-invested Real Estate Enterprises with the Stamp of the General Office of provincial government and the provincial counterparts of commerce to MOFCOM for record files;
- MOFCOM shall cooperate with other relevant departments of the state council to supervise foreign-invested real estate enterprises (five to ten companies are selected at random quarterly). The provincial counterparts of commerce shall present materials of the selected companies to MOFCOM within five working days of the notice being issued; and
- provided that the selected companies fail to pass such supervision, MOFCOM shall notify SAFE to cancel their foreign exchange registration formalities and foreign investment statistics.

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

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

- the local department of commerce shall strengthen the supervision on the property projects with an inflow of foreign exchange. When reviewing the record materials, the local department of commerce shall focus on the re-check on the integrity of the documents relating to the land, including the materials to prove the transfer of land use right, such as the land use right transfer contract, and the land use right certificate;
- the local department of commerce shall, together with the local relevant authorities, strengthen the supervision on cross-border investment and financing activities, prevention of the risks arising from real estate market and control on the speculative investments. The PRC property enterprises established with offshore capital shall not conduct interest arbitrage activities by purchase or sale of the real estate property which is under construction or completed; and

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- the local department of commerce shall further strengthen the approval, supervision and statistics verification of the establishment and/or capital increase of real estate enterprises by way of merger and acquisition, investment by equity and so on.

THE LAND SYSTEM OF THE PRC

Overview

All land in the PRC is either state-owned or collectively-owned, depending on the location of the land. All land in the urban areas of a city is state-owned, and all land in the rural and suburban areas is, unless otherwise specified by law, collectively-owned. The state has the right to resume its ownership of land or the right to use land in accordance with law if required for the public interest.

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

Land grants

National and local legislation

In April 1988, the NPC passed an amendment to the constitution of the PRC. The amendment, which allowed for the transfer of land use rights according to the PRC Law stipulations, paved the way for reforms of the legal regime governing the use of land and transfer of land use rights.

In December 1988, the Standing Committee of the NPC also amended the Land Administration Law of the PRC to permit the transfer of land use rights for value.

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

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

<u>Use of land</u>	<u>Maximum period (years)</u>
Commercial, tourism and entertainment	40
Residential	70
Industrial	50
Educational, scientific, cultural, public health and sports	50
Comprehensive utilization or others	50

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

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

Methods of land grant

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

Under the Regulations on the Assignment of State-Owned Land Use Rights through Competitive Bidding, Auction and Listing-for-Sale (招標拍賣掛牌出讓國有土地使用權規定) promulgated by the Ministry of Land and Resources on April 3, 2002, or as the “**2002 Regulations**”, amended in 2007 and effective on November 1, 2007, land for the use of industry, commerce, tourism, entertainment and commodity housing development shall be assigned by way of competitive bidding, a public auction or a listing-for-sale. The procedures are as follows:

- (a) The land authority under the people’s government of the city and county (the “**assignor**”) shall make an announcement at least 20 days prior to the date of the proposed competitive bidding, public auction or listing-for-sale. The announcement should include basic particulars such as land parcel, the qualification requirements of the bidder and auction applicants, methods and criteria on confirming the winning tender or winning bidder, and other conditions such as the deposit for the bid.
- (b) Unless it is otherwise prescribed by any law or regulation, all the natural persons, legal persons and other organizations inside and outside the territory of the PRC may apply for the participation in the assignment of state-owned construction land use rights through bid invitation, auction or quotation. No assignor may set restrictions that may affect fair and impartial competition in the announcement on the assignment through bid invitation, auction or quotation. For the assignment through quotation, the expiry date for applications in the announcement shall be two days prior to the completion of the assignment through quotation. For the applicants complying with the requirements as set down in the announcement on the assignment through bid invitation, auction or quotation, the assignor shall notify them to participate in the bid invitation, auction or quotation.
- (c) After determining the winning tender or the winning bidder by the competitive bidding, public auction or listing-for-sale, the assignor and the winning tender or winning bidder shall then enter into a confirmation. The assignor should return the bidding or tender deposit to other bidding or auction applicants within five working days after the completion of bidding, public auction or listing-for-sale.

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- (d) The assignor and the winning tender or winning bidder shall enter into a contract for state-owned land use right assignment 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 assignment price of the state-owned land use rights.
- (e) The winning tender or winning bidder should apply for land registration after paying off the assignment price in accordance with the state-owned land use right assignment contract. The government above the city and county level should issue the “Land Use Permit for State-Owned Land”.

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

Under the Urgent Notice of Further Strengthening the Administration of the Land, the land authority should rigidly execute the Model Text of the State-Owned Land Use Right Assignment Contract (國有土地使用權出讓合同示範文本) and Model Text of the State-Owned Land Use Right Assignment Supplementary Agreement (for Trial Implementation) (國有土地使用權出讓合同補充協議示範文本 (試行)) jointly enacted by the Ministry of Land and Resources, and SAIC. The document of the land use rights assignment should ascertain the requirements of planning, construction and land use such as the restriction of the dwelling size, plot ratio and the time limit of starting and completion. All these should be agreed to in the Land Use Rights Assignment Contract.

Under the Regulations on the Assignment of State-Owned Construction Land Use Rights Through Competitive Bidding, 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 Resource on September 28, 2007, and enforced on November 1, 2007, land of industrial use (including the land for warehouses but not including the land for mining), commercial use, tourism, entertainment and commodity housing development or more than 2 competing users on one piece of land shall be assigned by way of competitive bidding, a public auction or a listing-for-sale. The assignee shall apply for the land registration and obtain the “Land Use Permit for State-Owned Construction Land” after paying off the assignment price in accordance with the contract on the assignment of state-owned construction land use rights. Provided that the assignee fails to do so, neither the entire “Land Use Permit for State-Owned Construction Land” nor “Land Use Permit for State-Owned Construction Land” for the land, in divided portion (based on the already paid sum), may be issued by the local government.

In June 2003, the Ministry of Land and Resources promulgated the Regulations on Grant of State-Owned Land Use Rights by Agreement (協議出讓國有土地使用權規定) (the “**2003 Regulations**”), to regulate granting of land use rights by agreement. According to the 2003 Regulations, with respect to the publicized plot, if there is only one interested land user for the same plot, the assignment of State-owned land use right may be made pursuant to these Regulations by State-owned land and resources administrative authorities under people’s governments at the level of city or county, but profit-oriented land for business, tourism, recreation, and commercial housing are excluded therefrom. If there are two or more interested land users for the same plot, State-owned land and resources administrative authorities under people’s governments at the level of city or county shall assign the State-owned land use right by competitive bidding, a public auction or a listing-for-sale

pursuant to the Regulations on the Assignment of the State-owned Land Use Right Through Competitive Bidding, Auction or Listing-for-sale. According to the 2003 Regulations, the local land bureau, together with other relevant government departments, including the city planning authority, will formulate the plan concerning the land grant, including the specific location, boundary, purpose of use, area, term of grant, conditions of use, conditions for planning and design as well as the time for supply of land, and submit such plan to the relevant government for approval. The premium for land to be granted by agreement shall not be lower than the minimum price regulated by the State.

Afterwards, the local land bureau and the relevant party will negotiate and enter into the land grant contract based on the above-mentioned plan. If two or more parties are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or listing on a land exchange in accordance with the 2002 Regulations.

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

Model state-owned construction land grant contract

To standardize a land grant contract, in 2000, the Ministry of Land and Resources and the State Administration for Industry and Commerce published a model state-owned land grant contract (“**land grant contract**”), upon which many local governments have formulated their respective local form of land grant contracts to suit their specific local circumstances. The model land grant contract contains terms such as serial number of land, location of land, area of land, use of land, conditions of land upon delivery, term of grant, land grant fee and its payment schedule, registration of land, intensity of land investment, land use conditions and restrictions (including GFA, building plot ratio, greenbelt ratio and height and density limitations), construction of public facilities, auxiliary construction, deadline for commencement of construction, deadline for completion of construction, payment of idle fees, application for extension of the stipulated construction period, restrictions on transfer, rent and mortgage of land use rights, application of renewal, force majeure, breach of contract and dispute resolution.

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

Idle land

According to the Measures on Disposing of Idle Land (閒置土地處置辦法) promulgated and implemented by MLR on April 28, 1999, and as amended on June 1, 2012, a parcel of land can be defined as idle land under any of the following circumstances:

- the development of and construction on the land have not begun after a period of one year from the construction date stipulated in the “Contract on Lease of the Right to Use State-Owned Land”, or in the “Approval Letter on Land Allocation”; or

- the development of and construction on the land has begun, but the area under construction is less than one third of the total area to be developed or the invested amount is less than 25% of the total amount of investment; and the development and construction have been continuously suspended for more than one year.

The municipality or county-level municipality administrative authority shall, with regard to an identified piece of idle land, give notice to the land user containing proposals on dealing with the idle land, including, (1) extending the time period for development and construction (provided that it shall not be longer than one year); (2) changing the use and planning conditions of the land, and require the land user to fulfill the relevant procedures for the new use or planning; (3) arranging for temporary use for a period not longer than two years; (4) reaching a buy-back agreement with the land user; (5) arranging for replacement land for the land user if the delay of construction is due to planning changes by the administrative authority or (6) other measures proposed and implemented by the municipality or county-level municipality administrative authority based on the particular situation.

With respect to land which is obtained by assignment and which is within the scope of city planning, if the construction work has not yet started after one year as of the date stipulated in the assignment contract, a fine for idle land equivalent to 20% of the assignment price may be imposed on the land user. If the construction work has not yet begun after two years, the right to use the land may be forfeited by the State without any compensation. However, the above sanctions will not apply when the delay in commencement of construction is caused by force majeure or non-performance by the government or military control or preservation of cultural relics or other acts of government.

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

Termination

The land use rights terminate upon the expiry of the term of grant specified in the land grant contract and the resumption by the state of such rights.

The state generally will not withdraw the land use rights before the expiration of the term of grant and if it does so for special reasons, such as in the public interest, it must offer proper compensation to the land user.

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

A land user may apply for renewal of the land use rights and, if the approval is granted, the land user is required to enter into a new land grant contract, pay a land grant fee and affect an appropriate registration for the renewed grant.

In March 2007, the NPC adopted the Property Rights Law of the People's Republic of China (中華人民共和國物權法) (“**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, donations or collateral for financing. If the state takes the premises owned by entities or individuals, it must compensate the property owners in accordance with the applicable laws and protect the lawful rights and interests of the owners.

Land transfers from current land users

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

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

Certain domestic PRC individuals or entities enjoy the right to use land allocated by the State without payment of any consideration for an indefinite period of time. This type of land use rights is generally referred to as an allocated land use right. The Urban Land Regulations state that assignment, lease or mortgage of allocated land use rights in urban areas and any buildings or attachments situated on the land is subject to the approval of the relevant land and real estate administrative departments. The conditions for approval include the following:

- the existing land user must be an individual or a company, enterprise or other economic organization;
- the existing land user must hold a state-owned land use rights certificate and the relevant ownership certificates for the buildings and attachments;
- a formal land grant contract must be entered into with the relevant land department; and
- the land grant fee must be paid or such payment may be made from the proceeds of such assignment, lease and mortgage.

The assignment contract or the joint venture development agreement is subject to terms and conditions specified in the land grant contract. For residential construction projects, PRC law requires that at least 25% of total construction costs have been expended before assignment can take place. A higher minimum construction and investment fee may be provided in land grant contracts entered into between the local land administration bureau and the land user. All rights and obligations of the current holder under a land grant contract will be transferred contemporaneously to the assignee of the land use rights. The relevant local government has the pre-emptive right to acquire the land use rights to be assigned if the assignment price is significantly lower than the market price. The State shall not withdraw before the expiration of the term of use the right to the use of the land which the land user acquired in accordance with the law. Under special circumstances, the State may, based on the requirements of social public interests, withdraw the right before the expiration of the term of use in line with the relevant legal procedures and shall, based on the number of years in which the land user has used the land and actual state of affairs with respect to the development and utilization of the land, offer corresponding compensation.

Relocation of original residents

Where the land to be developed comprises land on which buildings have been erected and/or is occupied, we are required to compensate and relocate original residents before demolition and site clearance can be carried out. As specified in our land grant contracts, either the land authorities or our project companies are responsible for relocating existing residents and demolishing existing structures on the project sites. In cases where we are responsible for relocation, we are required to compensate the owners or residents of existing buildings on land to be developed for relocation in accordance with the Regulation on the Dismantlement of Urban Houses (城市房屋拆遷管理條例) implemented on November 1, 2001 by the State Council. But this administration rules have been abolished in compliance with the Regulation on the Expropriation of Buildings on State-owned Land and Compensation (國有土地上房屋徵收與補償條例) promulgated by the State Council on January 21, 2011 (“**Expropriation and Compensation Regulation**”).

The Expropriation and Compensation Regulation is formulated for purposes of regulating the expropriation of buildings on state-owned land and corresponding compensation, maintaining public interests and protecting the legitimate rights and interests of owners of the buildings to be expropriated, and it provides that, among other things:

- where a building of any entity or individual on state-owned land is expropriated for public interest, the owner of the expropriated building (the “**owner**”) shall be fairly compensated, and the principle of “democratic decision-making, due process and open results” shall be followed in the building expropriation and compensation;
- a building of any entity or individual on state-owned land can only be expropriated under the certain circumstances for public interest, and the governmental authorities are the sole entities who can be in charge of resettlement activities; the real estate developers are prohibited from being involved in the relevant procedures for building demolition and relocation;
- the compensation to the owner shall be paid before the resettlement, and cannot be less than the market value of similar properties at the time of expropriation. The market values of properties shall be assessed by qualified real estate assessment agencies according to the assessment rules for property expropriation. The owner who disagree with the assessed value of property can apply for a re-assessment; and
- neither violence nor coercion may be used to force the owner to leave the property sites, nor can certain measures, such as illegally cutting off water and/or power supplies, be used in demolition and relocation procedures.

In Shanghai, the Implementation Rules of Shanghai Municipality on the Expropriation of Buildings on State-owned Land and Compensation (上海市國有土地上房屋徵收與補償實施細則) (“**Shanghai Expropriation and Compensation Rule**”) was implemented on October 19, 2011. Apart from those stipulated in the Expropriation and Compensation Regulation, the Shanghai Expropriation and Compensation Rule details the elements by including a proposed expropriation plan. The Shanghai Expropriation and Compensation Rule provides different compensation standards for residential housing and non-residential housing. For the former, it provides detailed compensation, subsidies, incentives, computation standards, as well as additional subsidies for families whose per capita floor space is less than 22 square meters.

In March 2005, the Shanghai government also issued notice of regulations specifying that a relocation and demolition permit may not be granted to property developers in Shanghai unless the relocation compensation consisted of a minimum of 70% of payment-in-kind compensation (meaning new accommodation).

In Chongqing, the Regulations on the Administration of Chongqing Urban Housing Resettlement (重慶市城市房屋拆遷管理條例) passed on March 26, 1999, implemented on December 1, 2002, amended on May 29, 2003, provided that the amount of the relocation compensation payable by the property developer to affected residents should be calculated based on the valuation conducted by the qualified valuation institute and should take into account the location, the usage and the GFA of the buildings to be demolished. The above Administrative Regulations were revoked on May 27, 2011 by the Standing Committee of the Chongqing Municipal People's Congress, and the government organs of Chongqing are prohibited from being involved in any kind of violence for demolition according to the determination of the above Committee.

In Wuhan, the Implementation Measures for the Expropriation of Buildings on State-owned Land and Compensation (武漢市國有土地上房屋徵收與補償實施辦法) (“**Wuhan Expropriation and Compensation Measures**”) was implemented on December 3, 2012, which provides different compensation for industrial premises and other types of housing. For the former, compensation equivalent to 5% of the value of the housing shall be paid if expropriation results in the loss of production or business. For the latter, the government shall offer settlement fee or alternative housing if the owner selects alternative housing as compensation.

Other local governments have their own local regulations. Regardless of whether we or the relevant land authorities are responsible for relocating existing residents, if any resident is dissatisfied with the relocation compensation and refuses to move, we or the land authorities may seek to resolve the dispute by: (i) negotiating with the relevant resident to reach a mutually acceptable relocation compensation arrangement; or (ii) applying to the relevant local real estate administration authority (where the existing buildings are located) for its determination of whether the relocation compensation and relocation timetable is in compliance with law. The local real estate administration authority will then make a decision based on the principle of fairness and justice as to the proper costs and timetable. Where the local real estate administration authority itself is the owner or resident of the existing building, the dispute will be submitted to the local government who will make the decision.

MOHURD promulgated Valuation Rules on Expropriation of Buildings on State-owned Land (國有土地上房屋徵收評估辦法) on June 3, 2011, which stipulates the details such as the measures on choosing a valuation institution and the procedures of valuation.

Documents of title and registration of property interests

A land use rights certificate is the evidentiary legal document to demonstrate that the registered land user has the lawful right to use the land during the term stated in the land use rights certificate. Upon the completion of construction of a building (including passing the acceptance tests by various government departments), a building ownership certificate will be issued to the owner of the building. The holder of a land use right who is issued a building ownership certificate holds the land use rights and owns the building erected on the land. All holders of land use rights, and other rights with respect to the land, such as the right to buildings erected on the land, must register all their lawful state-owned land use rights, as well as ownership rights to the buildings. In this regard, real estate registries have been established in all cities in China. In most cities, there are separate registries for land use rights and buildings. However, in Shanghai, Chongqing and some other major cities, the two registries have been combined. In places where there are separate registries, the holder of a land use right will be issued a building ownership certificate for its ownership of the building and a land use rights certificate for its land use rights in the underlying land. In the other places where registries have been combined, such as in Shanghai, the land use rights certificate and the building ownership certificate are combined into a single certificate. Under PRC law, land use rights and building ownership rights which are duly registered are protected by law.

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

Mortgage and guarantee

The mortgage of real property in the PRC is governed by the Security Law of the PRC (中華人民共和國擔保法), the Measures for Administration of Mortgages of Urban Real Estate, or the Real Property Law, and other relevant real estate-related laws and regulations. A real property mortgage agreement must be in writing and must contain specific provisions including (i) the type and amount of the indebtedness secured, (ii) the period of the obligation by the debtor, (iii) the name, quality, quantity, conditions, location, ownership or use right of the mortgaged property, and (iv) the scope of security. Pursuant to the Real Property Law, buildings newly-erected on a piece of urban land after a mortgage contract has been entered into shall not constitute mortgaged property. If the mortgaged property is auctioned off, the new buildings added on the land may be auctioned together with the mortgaged property, but the mortgagee shall not be entitled to priority compensation from the proceeds of the auction of the new buildings.

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

The Security Law also contains comprehensive provisions dealing with guarantees. Under the Security Law, guarantees may be in two forms: (i) general guarantees whereby the guarantor bears the liability when the debtor fails to perform the payment obligation; and (ii) guarantees with joint and several liability whereby the guarantor and debtor are jointly and severally liable for the payment obligation. A guarantee contract must be in writing and, unless agreed otherwise, the term of a guarantee shall be six months after the expiration of the term for performance of the principal obligation.

The Security Law further provides that where indebtedness is secured by both a guarantee and by mortgaged property, the guarantor’s liability shall be limited to the extent of the indebtedness that is not secured by the mortgaged property.

Property development

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

On July 16, 2004, the State Council promulgated the Decision on Investment System Reforms (國務院關於投資體制改革的決定) (the “**Decision**”). Prior to the implementation of the Decision, the approval for the establishment of foreign invested entities engaged in real estate development activities was governed by the minutes of a meeting that was called by the Chinese Communist Party and the State Council on May 4, 1984 to discuss the topic of opening up 14 coastal cities to foreign investors (the “**Minutes**”), and the Notice on Certain Issues About the Development of Real Estate promulgated by the State Council on November 4, 1992 (國務院關於發展房地產業若干問題的通知) (the “**Notice**”).

The Notice from MOFCOM Relating to Releasing the Authorization Level for Foreign Enterprise’s Investment (商務部關於下放外商投資審批權限有關問題的通知) (the “**2010 Notice**”), promulgated on June 10, 2010, stipulates that for investment of not more than US\$300 million under the Encouraged and Permitted Category and not more than US\$50 million under the Restricted Category in the Catalogue Guiding the Foreign Enterprise Investment, the establishment of amendment issues will be approved or managed by the commercial departments of Provincial or Specific Cities level.

Pursuant to the Minutes, the Notice and subsequent laws and regulations, local governments have certain authority to examine and approve, on their own, non-productive type projects (such as real estate projects) using foreign investment. Pursuant to the Decision, with respect to “restricted” projects, as stipulated by the Foreign Investment Industrial Guidance Catalogue (revised version of 2007), refer to projects involving development and operation of high-class properties including high-class hotels, villas and high-end office building and international exhibition centers, approvals shall be obtained. Other projects with lower-class belonging to a “permitted” column shall be registered with competent authorities. Since PRC laws and regulations do not set out strict and clear definition on “high-class” real estate, the standard for “high-class” falls into the discretion of the relevant local authority subject to different level of local development and the local authorities are not required to apply for approval from or registration with the central level authority. On December 24, 2011, NDRC and MOFCOM jointly issued the new Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄 (2011年修訂)), which is effective as of January 30, 2012 and pursuant to which foreign investment in the construction and operation of villas is removed from the restriction category to the prohibited category.

Pursuant to the Urban Land Regulations, foreign entities may acquire land use rights in the PRC unless the law provides otherwise. However, in order to develop the acquired land, the foreign entities need to establish foreign investment enterprises in the PRC as the project companies to develop the property. These project companies may be in the form of Sino-foreign equity or cooperative joint ventures or wholly foreign-owned enterprises. The typical scope of business of such project company includes development, construction and sales and leasing commodity properties and ancillary facilities on the specific land as approved by the government. The term of the property development company is usually the same as the term of grant of the land use rights in question.

Establishment of a project company is subject to the approval by the relevant departments of the PRC government in accordance with the following procedure. First, the PRC party to a joint venture project or the foreign investor, in the case of a wholly foreign-owned project, will submit a project application report to the central or local development and reform commission for verification and approval. If the development and reform commission considers the proposed property development project to be consistent with the prevailing national and local economic plans and foreign investment regulations, it will grant an approval to the applicant with respect to the project. NDRC and MOFCOM have been given the authority to regularly promulgate guidelines for the direction of foreign investment.

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

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

Under the Provisions on Administration of Qualifications of Property Developers (房地產開發企業資質管理規定) (the “**Provisions on Administration of Qualifications**”) promulgated by the Ministry of Construction in March 2000, a property developer shall apply for registration of its qualifications according to regulations stated in the Provisions on Administration of Qualifications. An enterprise may not engage in development and sale of property without a qualification classification certificate for property development. The construction authority under the State Council oversees the qualifications of property developers throughout the country, and the property development authority under a local government on or above the county level shall oversee the qualifications of local property developers.

In accordance with the Provisions on Administration of Qualifications, property developers are classified into four classes. Different classes of qualification should be examined and approved by corresponding authorities. The class 1 qualification shall be subject to preliminary examination by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower qualifications shall be formulated by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority.

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

After a newly established property developer reports its establishment to the property development authority, the latter shall issue a Provisional Qualification Certificate to the eligible developer within 30 days of its receipt of the above report. The Provisional Qualification Certificate shall be effective

in one year as from its issuance, while the property development authority may extend the validity to a period of no longer than 2 years considering the actual business situation of the enterprise. The property developer shall apply for qualification classification by the property development authority within one month before expiry of the Provisional Qualification Certificate.

A developer of any qualification classification may only engage in the development and sale of property within its approved scope of business and may not engage in business which is limited to another classification. A class 1 property developer is not restricted as to the scale of property project to be developed and may undertake a property development project anywhere in the country. A class 2 property developer or lower may undertake a project with a gross floor area of less than 250,000 sq.m. and the specific scope of business shall be as confirmed by the construction authority under the government of the relevant province, autonomous region or municipality. Pursuant to the Provisions on Administration of Qualifications, the qualification of a property developer shall be inspected annually. The construction authority under the State Council or its authorized institution is responsible for the annual inspection of a class 1 property developer's qualification. Procedures for annual qualification inspection with developers of class 2 or lower shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

Pre-sales and sales

Pursuant to the Real Property Law and the Measures for Administration of the Pre-sale of Urban Commodity Premises (城市商品房預售管理辦法), or the Pre-sale Measures, as amended in July 2004, residential properties for sale that are under construction may be sold when the following conditions and/or requirements are satisfied:

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

The Shanghai local government stipulation, "Certain Opinions Relating to Enhancing Our City's Real Estate Market Restriction and Accelerating the Promotion of Housing Protection" (上海市政府批轉關於進一步加強本市房地產市場調控加快推進住房保障工作的意見) has adjusted the completion progress level for pre-sale of commodity residential housing projects that obtained the "Permit for Construction Work" after July 1, 2010. Those residential housing projects must have completed the main structural works and passed examination before they can be for pre-sale, and thus raising the standard for pre-sale. In Chongqing, similar requirements are also imposed under the Regulations for Administration of Real Estate Transactions in Urban Areas of Chongqing Municipality (重慶市城鎮房地產交易管理條例) promulgated in June 2002, and amended on May 27, 2011, which is effective as of January 1, 2012. These regulations further prescribe that, at the time of pre-sale, the units that have been presold and the land use rights to the underlying land must not be mortgaged. As for Wuhan, they have announced the Interim Regulations on the Administration of the Pre-Sale of Commodity Property in Wuhan (武漢市商品房預售方案管理暫行規定), which had made corresponding requirements.

According to the Development and Operation Regulations and the Pre-sale Measures, for the pre-sale of a commodity property, the developer shall sign a contract on the pre-sale of the commodity property with the purchaser. The developer shall, within 30 days upon signing the contract, apply for registration and record of the contract for pre-sale commodity property to the relevant administrative departments governing the real estate and land administration department of the city or county governments. The real estate administrative department shall take the initiative to apply network information technology to gradually implement the web-based registration of pre-sale contracts.

Pursuant to the Circular of the General Office of the State Council on Forwarding the Opinion of the Ministry of Construction and Other Department on Stabilizing Housing Price (國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知) on May 9, 2005, there are several regulations concerning commodity properties sale:

- The buyer of a commodity building is prohibited from conducting any transfer of the pre-sale of the commodity building that he has bought but is still under construction. Before completion and delivery of a pre-sale commodity building to the buyer, and before the buyer obtains the individual property ownership certificate, the administrative department of real estate shall not handle any transfer of the commodity building.
- A real name system for house purchase should be applied; and an immediate archival filing network system should be carried out for the pre-sale contracts of commodity properties.

Pursuant to the Notice on Promoting the Steady and Healthy Development of the Real Estate Market (關於促進房地產市場平穩健康發展的通知) issued by the General Office of the State Council on January 7, 2010, local governments must decide the minimum scale of pre-sales rationally and may not issue separate pre-sale permits by floor or unit.

On April 13, 2010, the Ministry of Housing and Urban-Rural Development of the People's Republic of China issued the Notice on Further Strengthening the Supervision Over the Real Estate Market and Improving the Pre-sale System of Commodity House (住房和城鄉建設部關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知). It provides that, among other things, within 10 days after the real estate developers obtain the pre-sale permit for the project for sale, they shall release the information regarding the number of properties allowed for pre-sale under such pre-sale permission and the price of such property to the public at one time. They shall also sell the properties to the public at the price as published and strictly subject to the pre-sale permits.

Pursuant to the Circular of the General Office of the State Council on Issues Concerning Further Works of Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) dated January 26, 2011, the municipalities directly under the Central Government, cities specially designated in the State plan, provincial cities and the other cities with excessive or rapid rising real estate price shall implement strict measures with housing-purchase limitation for a specified period of time. As the general rule, (i) the individuals who sell their residential property within five years after their purchase of such property will be charged business taxes based on the full amount of the transfer income; (ii) the minimum down payment for second house of residential family using bank loans or housing provident fund loan is raised to 60% with a minimum lending interest rate of 110% of the benchmark rate; (iii) the PRC government will forfeit the land use rights if a developer fails to obtain the construction permit and commence development for more than two years from the commencement date stipulated in the land grant contract; and (iv) municipalities directly under the Central Government, cities specially designated in the State Plan, provincial capitals and cities with high housing prices shall make purchase restrictions for a specified period. In principle, (a) a local residential family that already holds one house or a non-local

residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one house (including the new commodity residential house and second hand one); and (b) a local residential family who holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family who cannot provide the local payment certificates of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential houses in the relevant administrative regions.

For the purpose of implementing the Circular of the General Office of the State Council on Issues Concerning Further Works of Regulation and Control of Real Estate Market, the Shanghai Municipal Government promulgated the Notice on Further Strengthening the Macroeconomic Control over Shanghai Real Estate Market (上海市人民政府辦公廳印發關於本市貫徹《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》實施意見的通知) dated January 31, 2011, this notice provided that (i) the minimum down payment for second house of residential family using bank loans or housing provident fund is raised to 60% with a minimum lending interest rate of 110% of the benchmark rate; (ii) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for more than one year (on a cumulative basis) with the latest 2 years is limited to purchasing one house (including the new commodity residential house and second hand one); and a local residential family who holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family who cannot provide the local payment certificates of tax and/or social insurance for the latest 2 years shall be suspended from purchasing any other commodity residential houses in Shanghai, otherwise, these newly purchased houses cannot be registered in relevant real estate authorities. In addition to Shanghai, other main cities, including Wuhan, Dalian and some other cities, have also announced their new purchase limit policies which are similar to the requirements in the Circular of the General Office of the State Council on Issues concerning Further Works of Regulation and Control of Real Estate Market.

On November 8, 2013, Shanghai Housing security and Management Bureau issued a Notice on Further Implementation on Restricting Sales of Residential Housing (上海市住房保障和房屋管理局關於嚴格執行住房限購措施有關問題的通知), this Notice provides that non-local resident shall be required to provide evidence of local tax or social insurance payment for more than two years (on a cumulative basis) within the latest three years (calculating till the date of purchasing) in order to purchase houses in Shanghai. Failing to do so, newly purchased houses cannot be registered in relevant real estate authorities.

According to the Regulation on Clearly Marking Price in the Sale of Commodity Houses (商品房銷售明碼標價規定) promulgated by NDRC on March 16, 2011, the sale of commercial houses shall mark prices on a per unit basis, and show to the public the relevant fees which will be charged and the other factors which are in relation to the sale price. A commercial house operator shall not charge any additional fees other than those clearly marked during the property sale. After the price is clearly marked, the developer cannot increase the sale price or charge any other fees.

Leasing

Both the Urban Land Regulations and the Real Property Law permit leasing of granted land use rights and the buildings or properties constructed on the land. Leasing of properties situated in urban areas is governed by the Administration Measures for Urban Buildings Leasing, or the Urban Buildings Leasing Measures. The Urban Buildings Leasing Measures were promulgated by the Ministry of Construction in May 1995 in accordance with the Real Property Law in order to strengthen the administration of the leasing of urban buildings. The Urban Buildings Leasing Measures permit property owners to lease their properties to others for residential or commercial property uses except as otherwise prohibited by relevant laws. The landlords and tenants who are the parties to a property lease transaction are required to enter into a written lease agreement specifying all of the terms of the

lease arrangement as required by statutes. Leasing of buildings and the underlying land use rights must not exceed a maximum term of 20 years. The lease agreement becomes effective upon signing; however, it must be registered with the relevant real property administration authority at the municipality or county level within 30 days after its execution for the purpose of protecting the tenant's interest against claims from third parties. A tenant may, upon obtaining consent from the landlord, assign or sublet the premises to sub-tenants.

The MOHURD promulgated the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法) (the “**Leasing Measures**”) on December 1, 2010, and according to the Leasing Measures, the parties to a housing tenancy shall go through the housing tenancy registration formalities with the competent real estate authorities of the municipalities directly under the PRC central government, cities and counties where the housing is located within 30 days after the housing tenancy contract is signed. The relevant real estate authorities are authorized to impose a fine below RMB1,000 on individuals, and a fine from RMB1,000 to RMB10,000 on other violators who are not natural persons and fail to comply with the regulations within the specified time limit. The Leasing Measures came into effect as of February 1, 2011 in replacement of the Administration Measures for Urban Buildings Leasing.

According to the Real Property Law, rental income derived from the lease of buildings and the underlying land use rights from a landlord who acquired only allocated land use rights without payment of consideration for such acquisition must be turned over to the State.

Separation of markets for domestic and foreign property purchasers

When the PRC real property market first developed in the early 1990s, there was a “foreign” market in which high-end properties were designated to be sold to purchasers from Hong Kong, Macau, Taiwan and foreign countries for hard currency and a “domestic” market in which properties of domestic standards of quality were designated to be sold to local PRC purchasers for Renminbi. Such mandatory bifurcation of the real property market has been lifted in Beijing and Shanghai in recent years. For instance, Shanghai first merged the two markets in the residential sector in 2001 and subsequently, unified the two markets in the non-residential sector in 2003.

Real estate financing

PBOC issued the Circular on Further Strengthening the Management of Loans for Property Business (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) on June 5, 2003 to specify the requirements for banks to provide loans for the purposes of real estate development and individual house mortgage as follows:

- (a) The property loan by commercial banks to real estate development enterprises shall be granted only under the title of real estate development loan and it is strictly forbidden to extend such loans as current capital loans for real estate development projects or other loan items. No lending of any type shall be granted to enterprises which have not obtained the land use rights certificates, construction land planning permit, construction engineering planning permit and construction work permit;
- (b) Commercial banks shall not grant loans to property developers to pay off land premiums; and
- (c) Commercial banks may only provide mortgage loans to individual buyers when the main structural buildings have been topped out. The Shanghai local government has adjusted the completion progress level for pre-sale of commodity residential housing projects that obtained the “Permit for Construction Work” after July 1, 2010. Those residential housing projects must have their main structural works completed and pass examination before they can be for pre-sale, and thus raising the standard for pre-sale.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks issued by the CBRC on August 30, 2004, any real estate developer applying for real estate development loans shall have at least 35% of the total amount of investment as capital fund for the development project.

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

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

On September 27, 2007, PBOC and CBRC jointly issued a Circular on Strengthening the Administration on the Lending Practice for Commercial Properties (中國人民銀行、中國銀行業監督管理委員會關於加強商業性房地產信貸管理的通知), which further tightened mortgage lending, including:

For capital sum (owners' interest) portion of projects not reaching the 35% hurdle rate or projects not obtaining the land usage certificate, the construction land planning permit, the construction engineering planning permit or work commencement permit, commercial banks shall not grant any forms of lending. Upon MLR and the Construction Authorizer's investigation and confirmation, those real estate development enterprises which have been hoarding land or properties for speculation, commercial banks shall not grant any lending. For commodity houses left idle for more than 3 years, commercial banks shall not accept such properties as collaterals for lending.

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

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

On September 29, 2010, PBOC and CBRC issued the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知), which prohibits commercial banks from granting or extending loans to property developers that violate laws and regulations such as (i) holding idle land; (ii) changing the land use; (iii) changing the land nature; (iv) delaying the commencement and completion of development; and (v) intentionally holding properties for future sale, for the purpose of new property development.

Property management

Under the Measures for the Administration of Qualifications Certificates of Property Management Enterprises (物業管理企業資質管理辦法) promulgated by the Ministry of Construction in March 2004, and amended by the Ministry of Construction on November 26, 2007, it provides that:

- (1) a newly established property service enterprise shall, within 30 days from the date of receiving its business license, apply to the competent real estate authorities of the cities divided into districts or the municipalities directly under the Central Government for a business qualification. The departments of qualification, examination and approval will check and issue a “property service qualification certificate” corresponding to their grading assessment results; and
- (2) the qualifications of a property service enterprise shall be classified as class one, class two or class three. The competent construction department of the State Council shall be responsible for issuance and administration of the qualification certificate of the class one property service enterprise. The competent construction departments of the people’s governments of provinces and autonomous regions shall be responsible for the issuance and administration of the qualification certificate of the class two property service enterprises, and the competent realty departments of the people’s governments of municipalities directly under the Central Government shall be responsible for issuance and administration of the qualification certificate of the classes two and three property service enterprises. The competent realty departments of the people’s governments of the cities divided into districts shall be responsible for the issuance and administration of the qualification certificate of the class three property service enterprises.

According to the Regulation on Property Management (物業管理條例) enacted by the State Council on June 8, 2003 and implemented on September 1, 2003, as amended on August 26, 2007 and effective on October 1, 2007, the general meeting of owners in a property can appoint and dismiss the property service enterprise with affirmative votes of owners holding more than half of the voting rights. Before the formal appointment of a property service enterprise by the general meeting of the owners, a written temporary service contract should be signed by the construction institutions (for example, a developer) and a property service enterprise.

Insurance

There is no mandatory provision under PRC laws and regulations requiring a property developer to obtain insurance policies for its property developments. According to the common practice of the real estate industry in Guangdong, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies are required to pay for the insurance premium at their own costs and obtain insurance to cover their liabilities, such as third-party’s liability risk, employer’s liability risk, risk of non-performance of contract in the course of construction and risks associated with the construction and installation works during the construction period. The requirement for construction companies to obtain insurance coverage for all the aforementioned risks ceases immediately after the completion and acceptance upon inspection of construction.

Recent macroeconomic control measures

The General Office of the State Council enacted the Circular on Stabilizing Housing Price on March 26, 2005, requiring measures to be taken to restrain the housing price from increasing too fast and to promote the healthy development of the real estate market.

In May 2005, the Ministry of Construction and certain other Chinese government authorities jointly issued the Opinion of Stabilizing Property Prices (關於做好穩定住房價格工作的意見), followed by a set of new measures. As a result:

- as from June 1, 2005, a business tax was levied on property sales proceeds subject to the length of the period for which the property has been held and type of property concerned;
- transfer of uncompleted properties has been banned;
- planning review of residential properties which fail to commence construction within two years, which are not in compliance with their respective planning permits will be revoked; and
- land provision for villa construction was banned and land provision for high-end residential property construction was restricted.

The opinion provides that:

Intensifying the planning and control and improving the supply structure of houses

Where the housing price is growing excessively and where the supply of ordinary commodity houses in the medium or low price range, and economical houses are insufficient, construction of residential properties should mainly involve projects of ordinary commodity houses in the medium or low price range and economical houses.

The construction of low-density, upmarket houses shall be strictly controlled. With respect to construction projects of medium- or low-price ordinary commodity houses, before any grant of land, the municipal planning authority shall, according to the level of control required, set out conditions for planning and design such as height of buildings, plot ratio and green space. The real estate authority shall, in collaboration with other relevant authorities, set forth such controlling requirements as sale price, type and apartment sizes. Such conditions and requirements will be set out as preconditions of land assignment to ensure an effective supply of small or medium-sized houses at moderate and low prices. The local government must intensify the supervision of planning permits for real estate development projects. Housing projects that have not been commenced within two years must be examined again, and those that turn out to be not in compliance with the planning permits will be revoked.

Intensifying the control over the supply of land and rigorously enforcing the administration of land

Where the price of land for residential use and residential properties grows too rapidly, the proportion of land for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses in the medium or low price range and economical house should be emphatically increased. Land supply for villa construction shall continue to be suspended, and land supply for high-end housing property construction shall be strictly restricted.

Adjusting the policies of business tax on residential property house transfer and strictly regulating the collection and administration of tax

From June 1, 2005, the business tax on transfer of a residential property by an individual within two years of the purchase will be levied on the basis of the full amount of the sale proceeds. Transfer of

an ordinary residential property by an individual who sells two years or more after the purchase shall be exempted from the business tax. For transfer of a house other than ordinary residential property by an individual two years or more after the purchase, the business tax will be levied on the basis of the balance between the proceeds from selling the property and the purchase price.

Strictly rectifying and regulating the market order and seriously investigating into and punishing any irregular and rule-breaking sales

The buyer of a pre-completion commodity property is prohibited from conducting any transfer of the pre-sale commodity property that he has bought but is still under construction. A real name system for property purchase should be applied, and an immediate archival filing network system for advance sales contracts of commodity properties should be carried out.

On May 24, 2006, the General Office of State Council forwarded the Opinion on Adjusting the Housing Supply Structure and Stabilizing Property Prices (國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知) (the “**Opinion**”) of the Ministry of Construction and other relevant government authorities. The Opinion provides the following:

Adjusting the housing supply structure

- Developers must focus on providing small- to medium-sized ordinary commodity properties at low- to mid-level prices to cater to the demands of local residents.
- As of June 1, 2006, newly approved and newly commenced building construction projects must have at least 70% of the total construction work area designated for small apartments with floor areas of 90 sq.m. or below (including economically affordable apartments). If municipalities directly under the Central Government, cities listed on state plans and provincial capital cities have special reasons to adjust such prescribed ratio, they must obtain special approval from the Ministry of Construction. Construction projects that have been approved but have not yet obtained a construction permit must follow the prescribed ratio.

Further adjustments by tax, loan and land policies

- From June 1, 2006, business tax will be levied on the full amount of the sale proceeds on conveyance of residential properties within a period of five years from the date of purchase. If an individual sells his ordinary standard apartment after five or more years from the date of purchase, the business tax will normally be exempted. If an individual sells his non-ordinary apartment after five or more years from the date of purchase, the business tax will be levied on the balance between the selling price and the purchase price.
- Commercial banks are not allowed to advance loan facilities to real estate developers who do not have the required 35% or more of the total capital for the construction projects. Banks shall not accept mortgages of commodity apartments remaining unsold for three years or more.
- At least 70% of the total land supply for residential property development must be used for developing small- to medium-sized and low- to medium-cost ordinary housing and low cost public housing. Based on the restrictions of residential property size ratio and residential property price, land supply will be granted by way of auction to the real estate developer who offers the highest bid. Land supply for villa construction shall continue to be suspended, and land supply for low-density and large-area housing property construction shall be strictly restricted.

Reasonably monitoring the scope and progress of demolition of urban housing

- The management and reasonable control of the scope and progress of the demolition of urban housing should be strengthened to halt the excessive growth of passive housing demands.

Further rectifying and regulating the order of real estate properties market

- In order to ensure that the prescribed ratio regarding types and sizes is followed, the relevant authorities will need to re-examine the approval of those construction projects which have been granted planning permits but have not been commenced. The relevant authorities will ensure that no planning permit, construction permit or permit for pre-sale of commodity properties is issued to those construction projects which do not satisfy the regulatory requirements, in particular, the prescribed ratio requirement. If the real estate developers, without an approval, alter the architectural design, the construction items, and exceed the prescribed ratio, the relevant authorities have the power to dispose of the land and to confiscate the land in accordance with the law.
- The real estate administration authority and the administration of industry and commerce will investigate illegal dealings such as contract fraud cases in accordance with the relevant laws. The illegal conduct of pre-completion sale of commodity apartments without satisfying all the conditions will be enjoined, and a proper administrative penalty will be imposed in accordance with the law. For those real estate developers who maliciously manipulate the supply of commodity housing, the relevant authorities will impose a proper economic punishment in accordance with the law including revoking the business licenses of those serious offenders and will pursue personal liability for those concerned.

Gradually relieving the housing demands for low-income families

- To expedite the establishment of a low-cost public housing supply system in various cities and counties; to monitor and regulate the construction of economically affordable apartments; to aggressively develop the second-hand property market and property rental market.

Improving information disclosure system and system for collecting real estate statistics

On July 6, 2006, the Ministry of Construction promulgated the Certain Opinions on Carrying Out the Residential Property Size Ratio in Newly-Built Residential Buildings (建設部關於落實新建住房結構比例要求的若干意見) (Jianzhufang 2006 No. 165) (the “**Supplemental Opinion**”). The Supplemental Opinion provides the following:

- As of June 1, 2006, of the newly approved and newly commenced construction projects in different cities including towns and counties, at least 70% of the total construction area must be used for building small apartments with unit floor area of 90 sq.m. or below (including economically affordable apartments). The relevant authorities in different localities must strictly follow the prescribed ratio requirement in their respective locality.
- The relevant authorities must ensure the conditions of newly built commodity apartments including the planning and the design are satisfied, and must ensure that the property size ratio is adhered to. If a real estate developer has not followed the ratio requirement without approval, the town planning authorities will not issue a Planning Permit. If the real estate developer has not followed the requirements of the Planning Permit, the relevant authority reviewing the planning documents will not issue a certification, the construction authority will not issue a Construction Permit, and the real estate authority will not issue a Permit for pre-completion sale of the commodity apartments.

In the case of construction projects that were granted approval before June 1, 2006 but that were not granted a construction work permit by that date, the local government shall, upon its local conditions, ascertain the specific projects that shall adjust the residential property size ratio according to its local requirements of the prescribed residential property size ratio, the different nature of land use planning and the project layout.

On August 14, 2006, the General Office of MOFCOM promulgated a Notice for the Enforcement of the Regulation on the Access and the Management of Foreign Investment in the Real Property Market, which reinforces the minimum registered capital requirements on the foreign invested real property enterprises. According to this notice, the registered capital of a foreign invested real property enterprise must account for at least 50% of its total investment amount if its total investment amount is above US\$3 million. For an enterprise whose total investment amount is less than US\$3 million, its registered capital must account for at least 70% of its total investment amount.

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

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

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

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

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

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

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

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

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

On September 29, 2010, PBOC and CBRC issued the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知), which, among other things:

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

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

On July 19, 2012, the MLR and MOHURD promulgated the Urgent Circular. It provides that the land and house administrative departments at the provincial, municipal and county level are to continue strict implementation of their adjustment and control policies in order to prevent a housing price rebound, and implementation of the 2012 Amendment in order to strengthen the supply and supervision of the land and house. It reinforces that:

- the area of the granted land shall not exceed the prescribed maximum limit and the land shall not be transferred in the form of bundled or unconsolidated sale. The ratio of the residential land to the plot area shall not be less than 1:1. The land grant contract regarding the residential project must provide that construction will commence within one year from the date of the land transfer and complete within three years of the commencement date;
- the land users may not bid for land within a certain period if the land users: i) owe the land premium; ii) hold any idle land, iii) participate in speculative land dealing; iv) develop the land over its actual ability of development; or v) breach the land use contract;
- The bidding deposit shall not be less than 20% of the minimum land premium. A land grant contract shall be entered into within 10 working days after the auction is completed, and the down payment of 50% of the land premium shall be paid within one month of signing the land grant contract, with the remaining amount to be paid in full within one year of the date of the land grant contract in accordance with the provisions of such land grant contract. On February 26, 2013, the General Office of the State Council promulgated Circular 17. According to Circular 17, the General Office of People’s Government of Guangdong Province issued its Opinion on Continuing Improvement of the Control in Real Estate Market (廣東省人民政府辦公廳轉發國務院辦公廳關於繼續做好房地產市場調控工作的通知) (“**Guangdong Opinion**”) on March 25, 2013, the General Office of Shanghai Municipal People’s Government promulgated the Circular of the General Office of the Shanghai Municipal People’s Government on Printing and Distributing the Opinions of Shanghai Municipality on the Implementation of the Circular of the General Office of the State Council on Continuing the Regulation of Real Estate Market (上海市人民政府辦公廳印發關於本市貫徹《國務院辦公廳關於繼續做好房地產市場調控工作的通知》實施意見的通知) (“**Shanghai Circular**”) on March 30, 2013, and the General Office of Chongqing Municipal People’s Government issued its Notice on Continuing Improvement of the Control in Real Estate Market (重慶市人民政府辦公廳關於繼續做好房地產市場調控工作的通知) (“**Chongqing Notice**”) on March 30, 2013, On November 18, 2013, the Wuhan Government issued the Notice on Further Strengthening the Control in Real Estate Market (關於進一步加強房地產市場調控工作的意見) (“**Wuhan Notice**”). The requirements specified in the Circular 17 in terms of purchase restriction and loan restriction reflect the tightening rein on the market. The Circular 17 requires to further improve the existing house purchase restriction measures for the cities in which the purchase restriction measures have been implemented. It specifies that the purchase restriction shall be applied to the entire administrative region of a city; and the types of houses subject to such restriction shall cover all the new commercial houses and second-hand

houses; and the examination and approval procedures for the qualification of house purchase shall be completed before the signing of house purchase (subscription) contracts. The Circular 17 reaffirms strict enforcement of the 20% individual income tax on profits derived from property sale. Profits from property sale have long been subject to the 20% individual income tax since 1993, but few property owners have actually had to pay the tax. Currently, such tax is waived for a property owner if the owner's family has only one residential property for self-use and has owned such property for five or more years. The property owner may also pay an alternative tax of between 1% to 3% of the total sales price, if the owner does not possess or fails to submit property records that evidence the owner's original purchase price. Circular 17 and Shanghai Circular show the government's intention to further curbing speculation in the real estate market through restrictive measures on purchase of multiple houses, raising down payment ratio and interest rates required for second-house purchasers, and levying income tax. And also to those who sell their own houses, an individual income tax shall be levied on the difference between the sale price and the original value, and if such original value may be verified via historical records of tax collection or house registration, a 20% individual income tax shall be applied to the difference between the sale price and the original value pursuant to relevant laws and regulations. Under the Guangdong Opinion, those regions with house prices rising too fast should implement purchase restrictions to stabilize property prices timely and strictly carry out the provisions of levying income tax by Circular 17. In accordance with the Chongqing Notice, in order to inhibit investment or speculative house purchase, the tax authorities should levy income tax of 20% from the house transfer income and building tax of the building which is: (i) a single-family commodity housing; (ii) a new-purchasing luxury housing; or (iii) the second ordinary commercial housing owned by the person without household register, company or job in Chongqing. Under the Wuhan Notice, a non-local family will need to provide at least two years' payment of local tax or social insurance in order to purchase a house (and only one house) in Wuhan.

Implementation of macroeconomic control measures in major cities in the PRC

As real estate prices in Shanghai have been rising faster than the national rate, the central and local governments have also adjusted local economic policies on several occasions in an effort to curb prices and discourage speculation in Shanghai. In March and May 2005, the Shanghai local government implemented a variety of market tightening policies. In particular: (i) a business tax of 5% of the increased value on residential properties that are bought and resold in less than a year; and (ii) a ban on all mortgage transfers, as a result of which homeowners will have to pay off the balance of their existing mortgage before they can sell to the next buyer if the transfer takes place within one year from the original purchase. Other policies are aimed at expanding the supply of subsidized housing and housing aimed at low- or middle-income households.

On March 5, 2005, the local government in Shanghai issued Certain Opinions on Strengthening the Present Adjustment and Control of Real Property Market and Promoting a Sustainable and Healthy Development of the Real Property Market (上海市人民政府關於當前加強房地產市場調控促進房地產市場持續健康發展的若干意見), which made clear that future development of the real property market is aimed at stabilizing the rapid increase in real property prices and preventing speculation by focusing on the supply of ordinary residential units to local residents. Fiscal, financial, legal, administrative and other means will be used comprehensively to achieve such ends. On March 7, 2005, in response to the opinions, the Shanghai Local Tax Bureau issued a notice to remove the business tax exemption which had been in effect since August 1, 1999 and began imposing a 5% business tax, together with other miscellaneous levies, on gains from transfers of real properties which take place within one year from the original purchase. To support the central government's macroeconomic control measures over the local real property market, the Shanghai Banking Association issued the Guidelines for Banks in Shanghai on Further Strengthening the Administration on Granting Mortgage Loans to Individuals (關於進一步加強個人住房貸款管理的指引) on March 28, 2005. Pursuant to these guidelines,

commercial banks in Shanghai are required to increase the percentage of down payment if a borrower applies for a mortgage loan for a second property. If the same borrower applies for a mortgage loan for the third or more properties, the loan applications will be subject to strict scrutiny. The banks will substantially increase the percentage of down payment and interest rates for such mortgage loans. In addition, the banks are banned from providing bridge loans to enable sellers to transfer their properties prior to paying off the entire amount of their outstanding loan if the transfer takes place within one year from the original purchase. Further, on May 31, 2005, the Shanghai Finance Bureau, the Shanghai Local Tax Bureau, the Shanghai Urban Planning Bureau and the Shanghai Land and Resources Bureau jointly supplemented the Notice Concerning the Strengthening of Administration of Real Property Taxes ((上海市財政局、規劃局關於轉發《國家稅務總局、財政部、建設部關於加強房地產稅收管理》的通知) (part of the Notice is no longer effective according to 2011 No.1 Declaration issued by Shanghai Local Tax Bureau and Shanghai State Tax Bureau) pursuant to which ordinary housing is defined under this notice as housing with a floor area ratio of above 1.0, a GFA of less than 140 sq.m., the actual executed price is below 1.44 times of the average selling price of the residential property in the same level land and costing less than RMB17,500 per sq.m. if located within the Inner Ring Viaduct, RMB10,000 per sq.m. if located between the Inner and the Outer Ring Viaduct or RMB7,000 per sq.m. if located outside the Outer Ring Viaduct, with buyers of luxury homes after June 1, 2005 subject to a 3% deed tax.

On October 13, 2010, the Shanghai Municipal Department of Housing, Land and Resources, Shanghai Bureau of Finance and Local Taxation implemented the Notice of the Adjustment of the Preferential Policies on Deed Tax and Personal Income Tax for Real Estate Transactions (財政部、國家稅務總局、住房和城鄉建設部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) issued by the Ministry of Finance, State Administration of Taxation and the MOHURD. The said notice provides that: (1) the deed tax rate is reduced by half for first time buyers who purchase an ordinary residence that is the family's sole property and reduced to 1% for first time buyers who purchase an ordinary residence with less than 90 sq.m. floor area which is the family's sole property and (2) the personal income tax will not be reduced or exempted for tax payers who repurchase residential properties within one year after selling their self-owned residential properties.

On October 7, 2010, the Shanghai Municipal Government approved Certain Opinions on Further Strengthening the Adjustment and Control of Real Property Market and Accelerating the Process of Housing Security Work (關於進一步加強本市房地產市場調控加快推進住房保障工作的若干意見) which specially provides that:

- For a family that buys its first property with a GFA larger than 90 sq.m. and applies for house accumulation fund loan, a minimum 30% down payment is required, and the maximum house accumulation fund loan shall be RMB600,000; for a family that buys its second property for the improvement of living conditions, a minimum 50% down payment is required and the maximum house accumulation fund loan shall be RMB400,000; all the Housing Fund Management Centers shall suspend making loans to families that apply for second properties which cannot be defined as an improvement of living-condition property; families who buy three or more properties are prohibited from receiving house accumulation fund loans.
- Since the issuance of the several opinions, no family (including both the husband and wife, and their minor children) can buy more than one property in Shanghai in a certain term.
- Land value appreciation tax shall be levied according to the ratio of the average price of properties to be sold to the average price of all newly built properties in the same area of the previous year: if this ratio is less than 1.0, land value appreciation tax shall be levied at the rate of 2%; if this ratio is between 1.0 and 2.0, land value appreciation tax shall be levied at the rate of 3.5%; if this ratio is higher than 2.0, land value appreciation tax shall be levied at the rate of 5%.

- As to any real estate project which obtained its construction license after July 1, 2010, the requirements for it to apply for pre-sale permits shall be adjusted. Those residential housing projects should have completed the main structural works and passed for examination before they can be for pre-sale, and thus has raised the standard for pre-sale.
- Separate grants of planning permits, construction permits and pre-sale permits are restricted. The scale of construction and pre-sale of a real estate project shall be no less than 30,000 sq.m. GFA. Real estate projects with less than 30,000 sq.m. GFA are required to obtain a construction planning permit, construction license and pre-sale permit at the same time.

Other local governments in the PRC, including those in Wuhan and Chongqing, have issued similar notices to specify their respective standards of “ordinary residential property” and supplement the requirements set out in the Opinion.

On February 13, 2012, the Shanghai Municipal Department of Housing, Land and Resources, Shanghai Bureau of Finance and Local Taxation issued the Notice of Adjustment of Ordinary Housing Standards in Shanghai (關於調整本市普通住房標準的通知), effective on March 1, 2012. The said notice provides that to benefit from the preferential policies for transactions and personal income tax, an ordinary residence must meet the following requirements: (1) it must be in a high-rise building of five stories or more, an old fashioned building of no more than five stories or an old-style lane or new-style lane; (2) it must have a GFA of less than 140 sq.m.; and (3) the actual price must be below 1.44 times the average price of the houses of the same type and be less than RMB3,300,000 per unit if located within the Inner Ring Viaduct or RMB2,000,000 per unit if located between the Inner and the Outer Ring Viaduct or RMB1,600,000 per unit if located outside the Outer Ring Viaduct.

Furthermore, according to the Notice on Further Implementation the Macroeconomic Control Policies over Shanghai Real Estate Market (上海市人民政府辦公廳關於進一步嚴格執行房地產市場各項調控政策的通知), promulgated by Shanghai Municipal Government on July 26, 2012, Shanghai shall continue strict implementation of the differential housing consumer credit policy, property tax reform and purchase restriction.

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

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

Under the Chongqing Provisional Rules on Collection and Administration of Property Tax of Individual Residential Houses (重慶市關於開展對部分個人住房徵收房產稅改革試點的暫行辦法) issued by the Chongqing government which became effective on January 28, 2011, property tax will be imposed on (i) stand-alone residential properties (such as villas) owned by individuals, (ii) high-end residential properties purchased by individuals on or after January 28, 2011, the sale prices

per square meters of which are two or more times of the average price of newly constructed commodity residential properties developed within the nine major districts of Chongqing in the last two years and (iii) the second or further ordinary residential properties purchased on or after January 28, 2011 by non-resident individuals who are not employed in and do not own any enterprise in Chongqing, at rates ranging from 0.5%, 1% or 1.2% of the purchase price of the property. Under above rules in Chongqing, the area for tax deduction or exemption is 180 sq.m. calculated on family basis for the stand-alone residential properties owned by individuals before January 28, 2011, and is 100 sq.m. calculated on family basis for the stand-alone residential properties and high-end residential properties purchased on or after January 28, 2011.

Local legislation

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

REGULATION OF FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign currency exchange

The principal regulations governing foreign currency exchange in the PRC are the Regulations of the PRC on Foreign Exchange (中華人民共和國外匯管理條例) (the “**Foreign Exchange Regulations**”), promulgated by the State Council in January 1996, as amended in August 2008. Under the Foreign Exchange Regulations, a domestic institution or individual makes direct investment or issues or trades negotiable securities or derivative products overseas shall handle the registration formalities at SAFE. If the relevant state provisions require it to get the approval of the competent department or archive the issue with the competent department, it shall do so before handling the registration formalities.

The State shall implement the scale management of foreign debts. Any institution or individual borrowing foreign debts shall abide by the relevant State provisions and handle the foreign debt registration formalities at a foreign exchange administrative organ. SAFE shall take charge of collecting statistical data about and monitoring the foreign debts of the whole nation, and publish the foreign debt situations on a regular basis.

An institution shall apply to the SAFE or its local branches before providing foreign guarantee. SAFE or its local branches shall make a decision of approval or disapproval according to the asset-liability situation of the institution. If the relevant State provisions provide that its scope of business shall be subject to the approval of the competent department, it shall get the approval before applying to SAFE or its local branches. The institution shall, after concluding a foreign guarantee contract, handle the foreign guarantee registration formalities at SAFE or its local branches. The provisions of the preceding paragraph shall not apply where an institution, upon the approval of the State Council, provides foreign guarantee for a loan with the money borrowed from a foreign government or an international financial organization.

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

On January 10, 2014, SAFE issued the Notice of the State Administration of Foreign Exchange on the Further Improvement and Adjustment of the Foreign Exchange Control Policy for Capital Projects (國家外匯管理局關於進一步改進和調整資本項目外匯管理政策的通知), effective on February 10, 2014, which provides for, among others: (i) loosening of certain administrative procedures for the initial expenses outlay for overseas direct investments by domestic enterprises; (ii) loosening of certain restrictions on overseas lending by domestic enterprises; (iii) simplifying the procedures for remitting profits offshore by domestic enterprises.

Dividend distribution and remittance

The principal PRC regulations governing the distribution of dividends by our PRC subsidiaries are (i) The Company Law, as amended in 2005 and became effective on January 1, 2006, (ii) The Wholly Foreign-Owned Enterprise Law (1986), as amended in 2000 and its Implementation Regulation (2001); and (iii) The Chinese-foreign Equity Joint Venture Law (1979), as amended in 1990 and 2001 and its Implementation Regulation (2001); and (iv) The Chinese-Foreign Contractual Joint Ventures (1988), as amended in 2000 and its Implementation Regulation (1995).

Under these PRC laws and regulations, our subsidiaries in China may only pay dividends out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a subsidiary in China is required to set aside at least 10.0% of its after-tax income each year, if any, to fund a reserve fund until the accumulated reserve amounts to 50.0% of its registered capital. It is also required to set aside funds for the employee bonus and welfare fund or discretionary common reserve from its after-tax income each year at percentages determined at its sole discretion. These reserves are not distributable as cash dividends.

For overseas remittance of the current year’s dividends, a WFOE is required, under the Detailed Rules For the Implementation of Service Trade Foreign Exchange Management Guidelines (服務貿易外匯管理指引實施細則) which was issued on July 18, 2013, to submit the following documents to a designated foreign exchange bank:

- Proof of tax payment and declaration form of tax (WFOEs enjoying tax reductions or exemptions shall provide certification of tax reduction and exemption issued by the local tax authorities);
- An auditor’s report on the profit and dividend situation for the current year issued by an accounting firm;
- The resolution of the board of directors relating to the dividends distribution; and

- The latest capital verification report issued by an accounting firm.

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

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

Shareholder loan

A shareholder loan made by foreign investors as shareholders to foreign investment enterprises such as cooperative joint ventures, equity joint ventures and WFOEs is regarded as foreign debt in China, which is subject to a number of PRC laws and regulations, including the Foreign Exchange Regulations of 2008, the Interim Measures on Foreign Debts (外債管理暫行辦法) of 2003 or, the Interim Measures, the Statistical Monitoring of Foreign Debts Tentative Provisions of 1987 (外債統計監測暫行規定) and its Implementing Rules of 1998, the Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions of 1996 (結匯、售匯及付匯管理規定) and Measures on the Administration of Foreign Debt Registration (外債登記管理辦法) issued on April 28, 2013.

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

A foreign investment enterprise can legally borrow foreign exchange loans up to their borrowing limits, which is the difference between their respective amounts of "total investment" and "registered capital" as approved by MOFCOM or its local counterparts. "Total investment" is the projected amount of funds necessary for a foreign-invested enterprise to attain the production or operational capacity set out in its joint venture contract and/or articles of association, whereas, "registered capital" refers to the equity or capital contributions to be paid in full by the foreign investors and their Chinese partners (if any).

Pursuant to Article 18 of the Interim Measures, the summation of the accumulated medium-term and long-term debts borrowed by enterprises with foreign investment and the balance of short-term debts shall not exceed the surplus between the total investment in projects approved by the verifying departments and the registered capital. Within the range of the surplus enterprises with foreign investment may borrow foreign loans at their own will. If the loans exceed the surplus, the total investment in projects shall be re-examined by the original examination and approval departments.

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

- Within 15 days after formal execution of a shareholder loan agreement, borrowers shall present relevant documents to SAFE or its local branch and complete registration procedures and collect a seriatim Foreign Debt Registration Certificate (外債登記證). The submission includes (i) a

signed application, (ii) an original and copy of the shareholder loan agreement, (iii) a completed Form with Information on Execution of Foreign Debt Agreement, (iv) Foreign Exchange Registration Certificate for Foreign Investment; the joint venture contract and/or articles of association relating to establishment of the foreign investment enterprise and a capital verification report, and (v) other documents that SAFE or its local branch may require.

- When borrowers transfer foreign currency into China pursuant to foreign loan agreements, upon presentation of their Foreign Debt Registration Certificate, they shall open a Foreign Debt Spot Exchange Special Account with a bank in the PRC designated or approved by the State Administration for Foreign Exchange.
- When borrowers repay principal and interest, they should make an application to the State Administration for Foreign Exchange or its local branch based on the specified valid vouchers for the issuance of a Verification Certificate. The submission includes (i) a signed application form, (ii) Foreign Debt Registration Certificate, (iii) shareholder loan agreement, (iv) notices of repayment of principal and interest issued by lender, which shall include the total amount of the principal and interest for repayment, amount of the principal to be repaid, interest rate and the method and period for calculating interest, (v) notification of the transfer into account of the related portion of the loan and the current foreign currency account statement, (vi) proof of tax payment and tax returns for the payment of interest and fees and (vii) other documents that the State Administration for Foreign Exchange or its local branch may require.
- The bank which has opened the account for such borrowers shall rely on the Verification Certificate and Foreign Debt Registration Certificate as provided by borrowers and effect payment through the Foreign Debt Spot Exchange Special Account.
- In accordance with the bank payment documentation, borrowers shall record the amount of the payment in a Foreign Debt Variation and Repayment Form and file a copy with the State Administration for Foreign Exchange or its local branch that issued the Foreign Debt Registration Certificate.

According to the Measures on the Administration of Foreign Debt Registration, a non-bank debtor, after completion of its registration of foreign debt with the SAFE, may apply directly to the banks for opening foreign debt accounts, and banks would be able to provide various services such as withdrawal of foreign debt, settlement and sale of and payment in foreign exchange, as well as pay-off procedures. In addition, foreign debt of foreign-invested enterprises can be settled as exchange. The regulation also provides for the mechanism that qualified companies can be guaranteed by foreign individuals or enterprises when borrowing debts from domestic banks. In accordance with Notice of the State Administration of Foreign Exchange on Issuing the Provisions on the Foreign Exchange Administration of Domestic Direct Investment of Foreign Investors and the Supporting Documents (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) issued on May 11, 2013, individuals and institutions that participate in foreign direct investments shall first register with the SAFE or its local branches, then banks shall provide relevant services such as the settlement and sale of and payment in foreign exchange pursuant to the SAFE registration.

MAJOR TAXES RELATING TO OUR BUSINESS IN CHINA

Income tax

According to the PRC Enterprise Income Tax Law (the “EIT Law”, 中華人民共和國企業所得稅法) promulgated by NPC on March 16, 2007, which came into effect on January 1, 2008, a uniform income

tax rate of 25% is applied equally to domestic enterprises, as well as foreign investment enterprises. Pursuant to this new EIT Law, dividends and interests payable to a foreign investor are subject to a 20% withholding tax unless the jurisdiction of incorporation for the foreign investor has a tax treaty with China that provides for a different withholding arrangement.

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

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

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

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), or the Avoidance of Double Taxation Agreement, dividend payments to shareholders in Hong Kong would be withheld at a rate of 5% if their investment ratio in invested entities in China is above 25%, or 10% if their investment ratio in invested entities in China is below 25%. The PRC tax authorities may have the power to deny the lower tax rate in the case that the Hong Kong recipient of the dividend is not considered to be the beneficial owner of the income.

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

company that is used for tax planning purposes. "Income derived from equity transfers", as mentioned in this circular refers to income derived by non-resident enterprises from direct or indirect transfers of equity interest in China resident enterprises, excluding shares in Chinese resident enterprises that are bought and sold openly on the stock exchange.

Business tax

Business tax is payable in respect of certain business activities in China as set out in the Provisional Regulations Concerning Business Tax (中華人民共和國營業稅暫行條例) promulgated by the State Council on December 13, 1993 and implemented on January 1, 1994, amended on November 10, 2008 and implemented on January 1, 2009 and the Detailed Implementation Rules on the Provisional Regulations of PRC on Business Tax (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance on December 25, 1993, amended on December 15, 2008 and October 28, 2011 and implemented on January 1, 2009. The activities to which the business tax applies include supply of service as specified in the aforesaid regulations in PRC, transfer of intangible assets, leases, and sales of real estate properties in China. No deduction of the tax incurred on purchased services or materials is allowed except that the State Council make the decision of deduction or exemption of the tax. The rate of business tax payable for property sale and leasing transactions is 5% of the proceeds from the sale or leasing of real estate/immovable properties in China.

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

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

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

Ministry of Finance and State Administration of Taxation on January 27, 2011. Under this notice, for the sale of an ordinary housing unit or non-ordinary residential housing within five years after the original purchase date, the business tax thereon shall be collected on the full sale price; for the sale of non-ordinary residential housing more than five years after the original purchase date, the business tax thereon shall be collected on the basis of the difference between the sale price and the original purchase price; for the sale of ordinary housing unit more than five years after the original purchase date, it shall be exempted from business tax.

LAT

According to the requirements of the Provisional Regulations of PRC on Land Appreciation Tax (the “**Provisional Regulations**”, 中華人民共和國土地增值稅暫行條例) promulgated on December 13, 1993 and effective on January 1, 1994, and the Detailed Implementation Rules on the Provisional Regulations of PRC on Land Appreciation Tax (the “**Detailed Implementation Rules**”, 中華人民共和國土地增值稅暫行條例實施細則) promulgated and effective on January 27, 1995, any appreciation amount gained from taxpayer’s transfer of property shall be subject to LAT. LAT is levied according to four progressive rates: 30% for the appreciation amount not exceeding 50% of the sum of deductible items; 40% for the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% for the appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% for the appreciation amount exceeding 200% of the sum of deductible items. The related deductible items aforesaid include the following:

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

According to the requirements of the Provisional Regulations and the Detailed Implementation Rules, LAT shall be exempted under any one of the following circumstances:

- Taxpayers constructing ordinary standard residences for sale (*i.e.*, the residences built in accordance with the local standard for general use residential properties, excluding deluxe apartment, villas or resorts) in which the appreciation amount does not exceed 20% of the sum of deductible items;
- Property taken over and repossessed according to laws due to the construction requirements of the government.

According to the Circular Regarding the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts Signed before January 1, 1994 (關於對一九九四年一月一日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知) issued by the Ministry of Finance and the State Administration of Taxation on January 27, 1995:

- For property assignments which were signed before January 1, 1994, whenever the properties are transferred, the LAT shall be exempted;

- Either when the property development contracts were signed before January 1, 1994 or when the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, the LAT shall be exempted if the properties are transferred within five years after January 1, 1994 for the first time. The date of signing the development contracts shall be the date of signing the Sale and Purchase of Land Agreement. In the case of particular property projects which are approved by the government for the development of the whole piece of land and long-term development, of which the properties are transferred for the first time after the five-year tax-free period, after being examined and approved by the local financial and tax authorities, and in the case of a FIE, by local financial authorities and state tax bureaus, and approved by the Ministry of Finance and State Administration of Taxation, the tax-free period would then be appropriately prolonged.
- However, the LAT shall be collected if properties are transferred twice or in violation of the abovesaid provisions such as by transferring properties exceeding the permitted time limit for transfer contracts or changing the transfer contract.

After the enactment of the Provisional Regulations and the Detailed Implementation Rules, due to the longer period for the property development and transfer, many local tax authorities in the course of implementing the regulations and rules did not force the property developers to declare and pay the LAT. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, State Administration of Taxation, Ministry of Construction and State Land Administration Bureau had separately and jointly issued several notices to restate the requirement that after the assignment contracts are signed, the taxpayers should declare the tax to the local tax authorities with jurisdiction over the underlying property, and pay LAT in accordance with the amount calculated by the tax authority and the time as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority shall not process the relevant title change and shall not issue the property ownership certificate.

The State Administration of Taxation also issued the Circular on Well Operation of Collections Administration on Land Appreciation Tax (關於認真做好土地增值稅徵收管理工作的通知) on July 10, 2002 to request local tax authorities to modify the management system of LAT collection and operation details, to build up a sound taxpaying declaration system for LAT, and to modify the methods of pre-levying for property. Such notice also pointed out that either for the property development contracts which were signed before January 1, 1994 or where the project proposal has been approved and capital was injected for development, the privilege policy for LAT exemption for the properties that are transferred within 5 years after January 1, 1994 for the first time is expired, and such tax shall be levied again.

On August 2, 2004, the State Administration of Taxation issued the Circular on Enhancing the Administration of Land Appreciation Tax (關於加強土地增值稅管理工作的通知) in order to further clarify the taxpayers' duties in relation to filing of periodic tax returns. On August 5, 2004, the State Administration of Taxation issued the Circular on Further Enhancing the Administration on Collection of Urban Land Use Tax and Land Appreciation Tax (關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知) to further enhance the administrative efforts relating to the collection of LAT. It is stipulated in this notice that the waiver of LAT on any land grant contracts and property development contracts executed prior to January 1, 1994 has expired, and that appreciation in land value shall be subject to LAT irrespective of the time of assignment.

REGULATION

On March 2, 2006, the State Administration of Taxation and the Ministry of Finance issued the Circular on Several Issues Concerning Land Appreciation Tax (財政部、國家稅務總局關於土地增值稅若干問題的通知). This circular stipulated the following:

- Taxpayers constructing both ordinary residential properties and other commodity houses should calculate the appreciation value of the land separately, and declare the tax to the local tax authorities where the properties are located.
- Local authorities shall determine, and adjust as appropriate, the provisional LAT rates considering the relevant real property market, the type of buildings constructed and any other applicable factors.
- A taxpayer who fails to prepay the LAT within the stipulated time frame may be liable to a penalty under the Administrative Law of the People's Republic of China on the Levying and Collection of Taxes (中華人民共和國稅收徵收管理法).
- In relation to completed property projects, if 85% or more of the saleable GFA has been assigned or transferred, then the local tax authority may require the taxpayer to settle the LAT payment from the assigned or transferred property.
- For any investment made or joint operation conducted with land (or real estate) priced as consideration for shares, the provisions on temporary exemption of land appreciation tax shall not apply if the invested enterprise or the enterprise involved in the joint operation engages in real estate development, or if a real estate development enterprise uses commercial properties built to make an investment or enter into joint operation.

On December 28, 2006, the State Administration of Taxation issued the Circular 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 this circular, a property developer shall settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT tax rates. The LAT shall be settled for projects approved by the competent authorities; and for projects developed in different stages, the LAT shall be settled in stages. LAT must be settled if (1) the property development project has been completed and fully sold; (2) the property developer transfers the whole incomplete development project; or (3) the land-use rights with respect to the project is transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if any of the following criteria is met: (1) for completed property development projects, the transferred GFA represents more than 85% of total saleable GFA, or the proportion represented is less than 85%, but the remaining saleable GFA has been leased out or used by the developer; (2) the project has not been sold out for more than three years after obtaining the sale or pre-sale permit; (3) the developer applies for cancellation of the tax registration without having settled the relevant LAT; or (4) other conditions stipulated by the provincial tax authorities.

The Notice also indicated that if a property developer satisfies any of the following circumstances, the tax authorities shall levy and collect LAT as per the levying rate no lower than the pre-payment rate with reference to the bearing rate of LAT of local enterprises with a similar development scale and income level: (i) failure to maintain account book required by law or administrative regulation; (ii) destroying the account book without authorization or refusing to provide taxation information; (iii) the

accounts are in a state of mess or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or amount of deductible items; (iv) failure to go through LAT settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

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

On May 25, 2010, the State Administration of Taxation promulgated the Notice on Strengthening the Collection of Land Appreciation Tax (國家稅務總局關於加強土地增值稅徵管工作的通知) and imposed further requirements on the collection of LAT. This notice provides that, except for indemnificatory housing, the minimum LAT prepayment rate shall be no less than 2% for properties in the eastern region of the PRC, no less than 1.5% for properties in the central or northeast region of the PRC and no less than 1% for properties in the western region of the PRC. The LAT prepayment rates will be determined by the local authorities based on the different types of properties in the locality. Furthermore, on June 20, 2013, the State Administration of Taxation issued the Notice of the State Administration of Taxation on Further Improving the Collection of Land Value-added Taxes, which seeks to improve the collection of land value-added taxes.

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 in July 1997, the transferee, whether an individual or otherwise, of the title to a land site or building in the PRC shall be responsible for the payment of deed tax. The rate of deed tax is 3-5% of the purchase price. The governments of provinces, autonomous regions and municipalities may, within the foresaid range, determine and report their effective tax rates to the Ministry of Finance and the State Administration of Taxation for the record.

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

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

On September 29, 2010, Ministry of Finance, State Administration of Taxation and Ministry of Housing and Urban-rural Development jointly announced the Circular on Revising the Preferential Policies for Deed Tax and Individual Income Tax Relating to Real Property Transactions (關於調整房地產交易環節契稅、個人所得稅優惠政策的通知) which stipulated that deed tax shall be levied at half the applicable rate on an individual who purchases an ordinary residential property that is the only housing belonging to the family (members include the purchaser, his/her spouse and their minor

children, the same below), and shall be levied at a reduced rate of 1% on an individual who purchases an ordinary residential property of no larger than 90 square meters that is the only housing belonging to the family. Individuals shall not enjoy the aforesaid preferential policies where the ordinary residential property they purchase fails to meet the above requirements.

Urban land use tax

Pursuant to the Interim Regulations of the People's Republic of China On Land Use Tax with respect to Urban Land (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council in September 1988 and as amended in December 2006, the land use tax with respect to urban land is levied according to the area of relevant land. The annual tax on every sq.m. of urban land shall be from RMB0.6 to RMB30. Any foreign investment enterprise using urban land is required to pay the tax on urban land use accordingly from January 1, 2007.

Stamp duty

Under the Interim Regulations of the People's Republic of China on Stamp Duty (印花稅暫行條例) promulgated by the State Council in August 1988, for building property transfer instruments, including those with respect to property ownership transfer, the duty rate shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including property title certificates and land use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

Real estate tax

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

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

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

Under the Chongqing Provisional Rules on Collection of Property Tax of Individual Residential Houses (重慶市關於開展對部分個人住房徵收房產稅改革試點的暫行辦法) issued by the Chongqing government which became effective on January 28, 2011, property tax will be imposed on (i) stand-alone residential properties (such as villas) owned by individuals, (ii) high-end residential properties purchased by individuals on or after January 28, 2011, the sale prices per square meters of which are two or more times of the average price of newly constructed commercial resident properties developed within the nine major districts of Chongqing in the last two years and (iii) the second or further ordinary residential properties purchased on or after January 28, 2011 by non-resident

individuals who are not employed in and do not own any enterprise in Chongqing, at rates ranging from 0.5%, 1% or 1.2% of the purchase price of the property. Under above rules in Chongqing, the area for tax deduction or exemption is 180 sq.m. calculated on family basis for the stand-alone residential properties owned by individuals before January 28, 2011, and is 100 sq.m. calculated on family basis for the stand-alone residential properties and high-end residential properties purchased on or after January 28, 2011.

Municipal maintenance tax

Under the Interim Regulations of the People's Republic of China on Municipal Maintenance Tax (城市維護建設稅暫行條例) promulgated by the State Council in 1985, a taxpayer, whether an individual or otherwise, of consumption tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

And according to the Notice on Unifying the Municipal Maintenance Tax and Education Surcharge System of Domestic Enterprises, Foreign-Invested Enterprises and Individuals (關於統一內外資企業和個人城市維護建設稅和教育附加制度的通知) issued by the State Council on October 18, 2010, the municipal maintenance tax becomes applicable to foreign-invested enterprises as of December 1, 2010.

Education surcharge

Under the Interim Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council on April 28, 1986 and as amended on June 7, 1990, August 20, 2005 and January 8, 2011, a taxpayer, whether an individual or otherwise, of consumption tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas (國務院關於籌措農村學校辦學經費的通知).

And according to the Notice on Unifying the Municipal Maintenance Tax and Education Surcharge System of Domestic Enterprises, Foreign-Invested Enterprises and Individuals (關於統一內外資企業和個人城市維護建設稅和教育附加制度的通知) as issued by the State Council on October 18, 2010, the education surcharge becomes applicable to foreign-invested enterprises as of December 1, 2010.

SUBSTANTIAL SHAREHOLDERS

As of March 31, 2014, the persons or corporations (other than a Director or chief executive of Shui On Land) who had interests or short positions in the shares or underlying shares of Shui On Land pursuant to Part XV of the SFO were as follows:

Name of shareholders	Capacity/Nature of interests	Total number of ordinary shares and underlying shares	Approximate percentage of shareholding to the issued share capital of Shui On Land
Ms. Loletta CHU (“Mrs. Lo”) . . .	Family and Personal	4,579,045,005 ⁽¹⁾	57.22%
HSBC International Trustee Limited (“HSBC Trustee”).	Trustee	4,577,195,484 ⁽²⁾	57.20%
Bosrich Holdings (PTC) Inc. (“Bosrich”)	Trustee	4,577,195,484 ⁽²⁾	57.20%
SOCL	Interests of controlled corporation	4,577,195,484 ⁽²⁾	57.20%

Notes:

- (1) These shares comprised 1,849,521 shares beneficially owned by Mrs. Lo and 4,577,195,484 shares in which Mr. Lo, the spouse of Mrs. Lo, had a deemed interest under Part XV of the SFO as mentioned in note (2) below. Accordingly, Mrs. Lo was also deemed to be interested in 4,577,195,484 shares under Part XV of the SFO.
- (2) These shares were held by SOCL through its controlled corporations. SOCL was held under the Bosrich Unit Trust, the trustee of which was Bosrich. The units of the Bosrich Unit Trust were the property of a discretionary trust, of which Mr. Lo was a discretionary beneficiary and HSBC Trustee was the trustee. Accordingly, Mr. Lo, Mrs. Lo, Bosrich and HSBC Trustee were deemed to be interested in such shares under Part XV of the SFO.
- (3) All the interests stated above represent long positions.

Save as disclosed above, as of March 31, 2014, the Directors are not aware of any other person or corporation (other than a Director or chief executive of Shui On Land) having an interest or short position in the shares or underlying shares of Shui On Land pursuant to Part XV of the SFO.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our Directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. It also includes the transactions with connected persons (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)) which were required to be disclosed in accordance with Chapter 14A of the Listing Rules, certain of which are ongoing.

Provision of construction services by SOCAM to the Group

In the ordinary course of the Group’s business, the Group entered into a number of construction contracts with Shui On Construction Co., Ltd. (“SOCC”) and Pat Davie (China) Limited (together, the “SOCAM Contractors”), which are subsidiaries of SOCAM, as the contractors for construction works in relation to our projects in the PRC. The construction contracts include renovation works, building decoration works, mechanical and electrical system materials procurement and building materials procurement. Mr. Lo and his associates are together currently holding more than 30% equity interest in SOCAM. Therefore, SOCAM and its subsidiaries, including the SOCAM Contractors, are associates of a connected person of Shui On Land.

On June 4, 2006, Shui On Land entered into a construction services framework agreement with SOCC in respect of the provision of construction services as supplemented by a supplemental agreement dated December 15, 2008 to extend the term for three financial years to December 31, 2011. On December 9, 2011, Shui On Land and Shui On Contractors Limited (“SOC”), a wholly owned subsidiary of SOCAM, entered into a new framework agreement (the “New Construction Services Framework Agreement”) to provide new guidelines and basis of annual caps on the provision of construction services by SOC and its subsidiaries (which form part of SOCAM group and include SOCC as one of its members) to the Group for a further term of three financial years ending on December 31, 2014.

Under the New Construction Services Framework Agreement, for contracts with a contract sum of RMB5 million or more, construction contracts will generally put out to tender and contractors selected through a bidding process under which each potential contractor will be assessed on its qualifications, reputation for reliability, quality and price. The construction contracts with SOCAM Contractors of over RMB5 million will be entered into pursuant to and on the basis of bids tendered. For contracts of less than RMB5 million, the price shall be agreed with SOCAM Contractors with reference to the prevailing market rates.

An amount of RMB464 million was paid and/or is payable by the Group to SOC and its subsidiaries for the construction services for the year ended December 31, 2013.

Provision of management services by Shui On Development Limited (“Shanghai SOD”) to Richcoast and its subsidiaries (collectively as the “Dalian Group”)

On April 28, 2008, Shanghai SOD, a wholly owned subsidiary of Shui On Land, Max Clear Holdings Limited (“Max Clear”), a wholly owned subsidiary of SOCAM, Yida and certain onshore companies of the Dalian Group entered into a management services agreement (the “Management Services Agreement”) pursuant to which each of Shanghai SOD, Max Clear and Yida agreed to provide management services to the onshore companies of the Dalian Group for a term of three years commencing from January 1, 2008 to December 31, 2010. On December 28, 2010, Shanghai SOD, Max Clear, Yida and the then onshore companies of the Dalian Group (the “Dalian Onshore Group”) entered into a renewed management services agreement to extend the term of the Management Services Agreement for the three financial years ended December 31, 2013.

RELATED PARTY TRANSACTIONS

In accordance with the Management Services Agreement as supplemented by the renewed management services agreement dated December 28, 2010, each of Shanghai SOD, Max Clear and Yida is entitled to receive an annual management services fee from the Dalian Onshore Group to be calculated at 1%, 1.5% and 1% respectively of the annual total budgeted construction cost for the Dalian Tiandi project with respect to the provision of management services.

On October 29, 2012, Shanghai SOD, Max Clear, Yida and the Dalian Onshore Group entered into a further renewed management services agreement to, among other things, (a) further extend the term of the Management Services Agreement so that it will end on December 31, 2014 instead of December 31, 2013; (b) revise the scope of management services to be provided by Shanghai SOD and Max Clear to the Dalian Onshore Group; and (c) revise the relevant percentage ratios for calculating the annual management services fees payable by the Dalian Onshore Group (i) from 1% to 1.5% as to Shanghai SOD and (ii) from 1.5% to 1% as to Max Clear, in each case of the annual total budgeted construction cost for the Dalian Tiandi project. The revisions in (b) and (c) above are effective from October 29, 2012.

The companies constituting the Dalian Group are the subsidiaries of Shui On Land for the purposes of the Listing Rules, and Max Clear and Yida are connected persons of Shui On Land by virtue of being the substantial shareholders of Richcoast.

The amounts of RMB15 million, RMB10 million and RMB10 million were paid and/or are payable to Shanghai SOD, Max Clear and Yida respectively for the management services fees for the year ended December 31, 2013.

Provision of construction services by the Yida Group for Dalian Tiandi

On August 7, 2008, Richcoast and Yida entered into a framework construction agreement, pursuant to which the Yida Group may enter into contracts with the Dalian Group to perform site formation and construction works, which include excavation and/or back filling, clearance of the construction site, removal of the construction garbage, setting up a drainage system and construction of the main structures on the land area constituting Dalian Tiandi for a term expiring no later than December 31, 2010. The term of the agreement was subsequently extended to December 31, 2011 by a supplemental agreement dated July 17, 2009 and further extended to December 31, 2012 by a second supplemental agreement dated August 26, 2010. On November 23, 2012, Richcoast and Yida entered into the third supplemental agreement to the framework construction agreement to provide guidelines and basis of annual caps for the provision of construction services by the Yida Group to the Dalian Group for a further term of three financial years ending on December 31, 2015.

Yida, through its wholly owned subsidiary, is a substantial shareholder of Richcoast, a subsidiary of Shui On Land for the purposes of the Listing Rules. Therefore, the Yida Group is a connected person of Shui On Land under the Listing Rules.

An amount of RMB510 million was paid and/or is payable by the Dalian Group to the Yida Group for the construction services fees for the year ended December 31, 2013.

Use of aircraft owned by a subsidiary of SOCL

On September 4, 2009, Shui On Land entered into an agreement with Top Dynasty Investment Limited (“**Top Dynasty**”) pursuant to which the Group may use an aircraft owned by Top Dynasty for the purpose of transporting passengers for business of the Group. As Top Dynasty is a subsidiary of SOCL, the transactions contemplated under the agreement constitute continuing connected transactions of Shui On Land under the Listing Rules.

The term of the agreement was extended to December 31, 2013 by a supplemental agreement dated November 2, 2010 and further extended to December 31, 2016 by a second supplemental agreement dated September 18, 2013. The fees payable under the agreement are calculated based on the actual travelling schedules of the passengers.

An amount of RMB8.1 million was paid and/or is payable by the Group to Top Dynasty and its affiliates for the use of aircraft for the year ended December 31, 2013.

Continuing connected transactions with respect to the Super High Rise project of Chongqing Shui On Tiandi Property Development Company Limited (“Chongqing Tiandi Development”)

On May 24, 2011, Winnington Land Limited (“WLL”) and Chongqing Tiandi Development entered into a project services framework agreement (the “CQ(SHR) Agreement”) pursuant to which Chongqing Tiandi Development may enter into separate service contracts with WLL and its associates (the “WLL Group”) to perform services with respect to the Super High Rise project of Chongqing Tiandi Development, from time to time in accordance with the terms of the CQ(SHR) Agreement for the three financial years ended December 31, 2013.

As of the date of the relevant announcement, the ultimate controlling shareholder of WLL was an associate of Mr. Lo pursuant to Rule 14A.11(4)(c) of the Listing Rules, and was therefore an associate of a connected person of Shui On Land. Accordingly, WLL, together with the WLL Group, were connected persons of Shui On Land and the services fees payable by Chongqing Tiandi Development to the WLL Group under the CQ(SHR) Agreement constituted continuing connected transactions of Shui On Land under the Listing Rules.

An amount of RMB2.4 million was paid and/or is payable by Chongqing Tiandi Development to the WLL Group for the project services fees for the year ended December 31, 2013.

On February 1, 2013, WLL and Chongqing Tiandi Development entered into a deed of termination pursuant to which the parties mutually agreed to terminate the CQ(SHR) Agreement with effect from February 1, 2013.

Continuing connected transactions with respect to the projects of Shanghai Rui Hong Xin Cheng Co., Ltd. (“RHXC”)

On October 27, 2009, the Issuer, WLL and RHXC entered into a project services framework agreement pursuant to which RHXC may enter into separate service contracts with the Group and/or the WLL Group to perform services with respect to the property development projects of RHXC, from time to time in accordance with the terms of the framework agreement for the three years ended December 31, 2011. On February 23, 2012, RHXC and WLL entered into a new framework agreement (the “RHXC Agreement”) to provide guidelines and basis of annual caps on the provision of services by the WLL Group to RHXC for a further term of three financial years ending on December 31, 2014.

As of the date of the relevant announcement, the ultimate controlling shareholder of WLL was an associate of Mr. Lo pursuant to Rule 14A.11(4)(c) of the Listing Rules, and was therefore an associate of a connected person of Shui On Land. Accordingly, WLL, together with the WLL Group, were connected persons of Shui On Land and the services fees payable by RHXC to the WLL Group under the RHXC Agreement constituted continuing connected transactions of Shui On Land under the Listing Rules.

An amount of RMB0.2 million was paid and/or is payable by RHXC to the WLL Group for the project services fees for the year ended December 31, 2013.

RELATED PARTY TRANSACTIONS

On February 1, 2013, WLL and RHXC entered into a deed of termination pursuant to which the parties mutually agreed to terminate the RHXC Agreement with effect from February 1, 2013.

Continuing connected transactions with the Langham Hospitality Group with respect to the 88 Xintiandi project

On August 22, 2011, the Issuer entered into a joint venture arrangement with Langham Hospitality Group Limited and its subsidiaries (the “**Langham Hospitality Group**”) in relation to the 88 Xintiandi project for the purposes of owning and holding the 88 Xintiandi brand and trademarks for use by hotels and branded residences in the PRC as contemplated under the shareholders’ deed dated August 22, 2011 and the related agreements.

Pursuant to the shareholders’ deed and in furtherance of the 88 Xintiandi project, the Issuer and the Langham Hospitality Group further entered into the master agreement on August 22, 2011 pursuant to which the members of the Langham Hospitality Group may enter into separate services contracts with the Group for the provision of fitting-out, centralized services, marketing and management services, and the granting of licenses to the hotels and branded residences developed and/or owned by the Group or third parties under the 88 Xintiandi brand.

The Langham Hospitality Group is owned by Great Eagle Holdings Limited (“**Great Eagle**”) which is an associate of Mr. Lo for the purposes of the Listing Rules. Accordingly, the transactions contemplated under the shareholders’ deed and the master agreement constitute continuing connected transactions of Shui On Land under the Listing Rules.

An amount of RMB1.1 million was paid and/or is payable by the Group to the Langham Hospitality Group for the services for the year ended December 31, 2013.

Continuing connected transactions with Langham Hotels International Limited (“Langham International”) and Langham Hotels (Shanghai) Company Limited (“Langham Shanghai”) with respect to Langham Xintiandi Hotel

On April 1, 2010, Shanghai Li Xing Hotel Company Limited (“**Li Xing**”) entered into a hotel management agreement with Langham Shanghai and a license agreement with Langham International (collectively the “**Langham Xintiandi Hotel Related Agreements**”). Under the hotel management agreement, Langham Shanghai shall have the exclusive right to manage and operate Langham Xintiandi Hotel for a term of 20 years from the opening of Langham Xintiandi Hotel and renewable by Langham Shanghai for multiple 10-year periods subject to the terms therein. In addition, pursuant to the license agreement, Langham International has agreed to grant to Li Xing a non-exclusive and non-transferable license to use the “Langham” and other marks for the operation of Langham Xintiandi Hotel during the term of the hotel management agreement,

Langham Shanghai and Langham International are owned by Great Eagle which is an associate of Mr. Lo for the purposes of the Listing Rules. With effect from March 16, 2012 upon the completion of Rimner Acquisition and MGI Acquisition (as defined in the announcement of Shui On Land dated September 9, 2011 and the circular of Shui On Land dated October 6, 2011), Li Xing became a subsidiary of Shui On Land. Accordingly, the transactions contemplated under the Langham Xintiandi Hotel Related Agreements become continuing connected transactions of Shui On Land under the Listing Rules. On January 28, 2014, the Company and Great Eagle renewed the annual caps of the Langham Xintiandi Hotel Related Agreements for each of the three financial years ending on December 31, 2016. Additional details of the transaction are set out in the announcement of Shui On Land dated January 28, 2014.

An aggregate amount of RMB13.8 million was paid and/or is payable by the Group to Langham Shanghai and Langham International for the year ended December 31, 2013.

Asset swap and joint venture agreement with TPD

On September 30, 2013, the Issuer entered into the Swap Agreement with the Investor. Under the Swap Agreement, (i) the Issuer shall transfer to Taipingqiao 116 all of its shares in Portspin (and any related shareholders' loans and any receivables owed to the Issuer or its affiliates by Portspin or its subsidiaries) and (ii) the Investor shall transfer to the Issuer all of their shares in the Group Companies (and any related shareholders' loans and any receivables owed to the Investor or its affiliates by the Group Companies and any of their respective subsidiaries). Upon completion of the Swap Agreement, the Issuer will beneficially own 100% equity interest in the offshore parent companies with respect to Wuhan Tiandi project, Shanghai Rui Hong Xin Cheng project and Chongqing Tiandi project.

Simultaneously on September 30, 2013, the Issuer, Taipingqiao 116 and Portspin entered into the JV Agreement in relation to Portspin, pursuant to which, among other things, the Issuer would receive shares in Portspin upon completion under the Swap Agreement and the parties thereunder had agreed to manage the business of Portspin and its subsidiaries in accordance with the terms and conditions of the JV Agreement. Pursuant to the JV Agreement, Taipingqiao 116 may within two weeks of Adjustment Date (as defined in the JV Agreement) sell its shares in Portspin of a value of US\$90 million to the Issuer ("**Sale Option**"). If Taipingqiao 116 exercises the Sale Option, the Issuer shall have the right to buy shares in Portspin from Taipingqiao 116 equivalent to the shares acquired under the Sale Option ("**Purchase Option**"). If Taipingqiao 116 exercises the Sale Option in full, the Issuer's interest in Portspin would be approximately 28% and if the Issuer then exercises the Purchase Option, the Issuer's interest in Portspin will further increase to approximately 37%.

The Issuer may also in certain other limited circumstances repurchase the shares in Portspin acquired by Taipingqiao 116 at a price to be determined with reference to the valuation of the fair market value and Portspin and its subsidiaries as agreed under the terms of the JV Agreement.

As of the date of the announcement on September 30, 2013, the Investor (directly or indirectly and severally) was a substantial shareholder of Shui On Land and therefore the connected person(s) of Shui On Land. Accordingly, the transactions contemplated under the Swap Agreement and the JV Agreement constituted connected transactions of Shui On Land under the Listing Rules.

THE ISSUER

GENERAL

The Issuer was incorporated in the Cayman Islands on July 27, 2005 as an exempted company with limited liability, with a registration number of WK-152519. Its principal place of business in the PRC is at 26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, 200021, PRC. Its principal place of business in Hong Kong is at 34/F, Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong. Its registered office is located at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.

MANAGEMENT

The Issuer is managed by its board of directors. The current directors of the Issuer are as follows:

Name	Business Address
Mr. Vincent H. S. LO	34/F, Shui On Centre, 6-8 Harbour Road, Hong Kong
Mr. Daniel Y. K. WAN	26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, the PRC
Mr. Philip K. T. WONG	26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, the PRC
Mr. K. W. TANG	26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, the PRC
Mr. Charles W. M. CHAN	26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, the PRC
Mr. Matthew Q. GUO	26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, the PRC
Ms. Jessica Y. WANG	26/F, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, the PRC

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

INDEBTEDNESS

We undertake our project developments through project subsidiary companies. The operations of our project companies are financed through a combination of capital contributions, project construction loans and mortgage loans. We finance our property developments, most of which are large-scale projects, with property-specific construction loans because of the time associated with the development of these projects. These project construction loans are generally secured by mortgages over the land use rights and construction of the project companies, our equity interests in the project companies, insurance over their assets and properties, the proceeds of the rental and sale of our completed properties and bank accounts. Upon completion of investment property projects, we generally seek to refinance such project construction loans with mortgage loans having a normal term of five to ten years.

We issue guarantees to banks with respect to some project construction loans during the project development and mortgage loans after project completion of our subsidiary project companies.

From time to time the Group has been required to seek amendments, waivers and consents in connection with financial and other covenants under the Group's debt facilities. Such amendments, waivers and consents have all been granted by the applicable creditors and such incidents have not caused any material adverse impact on our operation and financial conditions.

As of December 31, 2013, our bank and other borrowings and derivative financial instruments designated as hedging instruments totaled RMB24,471 million (US\$4,042 million) comprising bank and other borrowings of RMB24,366 million (US\$4,025 million) and derivative financial instruments designated as hedging instruments of RMB105 million (US\$17 million). As of December 31, 2013, there were RMB3,239 million (US\$535 million) of loans from and amounts due to non-controlling shareholders of subsidiaries.

During the three months ended March 31, 2014, the Group repaid a total of RMB2,130 million of its bank and other borrowings and incurred a total of RMB3,162 million of additional bank borrowings.

INDEBTEDNESS OF THE SUBSIDIARIES OF THE ISSUER

The following table sets out a summary of the outstanding bank and other borrowings of the Issuer's subsidiaries as of December 31, 2013:

Borrower	Property	Principal amount outstanding	Principal amount unutilized and available	Maturity date	Guarantor	Location
		<i>(RMB in millions)</i>	<i>(RMB in millions)</i>			
Shanghai Xin-tian-di Plaza Co., Ltd. ⁽¹⁾	Shanghai Xintiandi	327	—	March 29, 2015	The Issuer	Onshore
Shanghai Xing-Qi Properties Co., Ltd.						
Shanghai Ji-Xing Properties Co., Ltd.						

Note:

(1) RMB3 million has been repaid and the guarantor was changed to China Xintiandi Property Company Limited during the three months ended March 31, 2014.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

Borrower	Property	Principal amount outstanding	Principal amount unutilized and available	Maturity date	Guarantor	Location
		<i>(RMB in millions)</i>	<i>(RMB in millions)</i>			
Shanghai Bai-Xing Properties Co., Ltd. ⁽²⁾						
Marble Way Limited	Shanghai Xintiandi	1,692	—	March 29, 2015	The Issuer	Offshore
Shanghai Xing Bang Properties Co., Ltd. ⁽³⁾	Phase 1 of Corporate Avenue	332	—	October 19, 2015	The Issuer	Onshore
Brixworth International Limited ⁽⁴⁾	Phase 1 of Corporate Avenue	1,624	—	October 19, 2015	The Issuer	Offshore
Shanghai FuXiang Properties Co., Ltd. ⁽⁵⁾	Lot 113 — Shanghai Taipingqiao	50	—	October 15, 2016	The Parent Guarantor	Onshore
East Trend Limited ⁽⁶⁾	Lot 113 — Shanghai Taipingqiao	859	—	October 15, 2016	Nil	Offshore
Shanghai JunXing Property Co., Ltd.	Lot 116 — Shanghai Taipingqiao	586	113	September 11, 2014	The Parent Guarantor	Onshore
Portspin Limited.	Lot 116 — Shanghai Taipingqiao	722	—	December 31, 2015	The Parent Guarantor	Offshore
Shanghai LeFu Property Co., Ltd. ⁽⁷⁾	Lot 127 — Shanghai Taipingqiao	230	1,262	May 24, 2016	Nil	Onshore
Infoshore International Limited ⁽⁸⁾	Lot 127 — Shanghai Taipingqiao	769	—	May 24, 2016	The Parent Guarantor	Offshore
Shanghai Rui Hong Xin Cheng Co., Ltd. ⁽⁹⁾	Shanghai Rui Hong Xin Cheng	94	—	June 20, 2015	The Parent Guarantor	Onshore
Shanghai Rui Hong Xin Cheng Co., Ltd.	Shanghai Rui Hong Xin Cheng	291	—	June 20, 2022	Nil	Onshore
Hollyfield Holdings Limited	Shanghai Rui Hong Xin Cheng	658	—	June 19, 2015	The Parent Guarantor	Offshore
Shanghai Rui Hong Xin Chong Co., Ltd. ⁽¹⁰⁾	Shanghai Rui Hong Xin Cheng	1,820	8,180	November 28, 2019	Nil	Onshore
Shanghai Rui Hong Xin Cheng Co., Ltd. ⁽¹¹⁾	Shanghai Rui Hong Xin Cheng	150	—	March 18, 2025	Nil	Onshore
Shanghai Yang Pu Centre Development Co., Ltd. ⁽¹²⁾	Shanghai KIC	319	—	December 26, 2017	The Parent Guarantor	Onshore
Shanghai Yang Pu Centre Development Co., Ltd.	Shanghai KIC	286	55	June 16, 2015	Nil	Onshore

- (2) The guarantor was changed to China Xintiandi Property Company Limited during the three months ended March 31, 2014.
- (3) The guarantor was changed to China Xintiandi Property Company Limited during the three months ended March 31, 2014.
- (4) The guarantor was changed to China Xintiandi Property Company Limited during the three months ended March 31, 2014.
- (5) The guarantor was changed to China Xintiandi Property Company Limited during the three months ended March 31, 2014.
- (6) China Xintiandi Property Company Limited became a guarantor for this loan during the three months ended March 31, 2014.
- (7) RMB75 million has been drawn down during the three months ended March 31, 2014.
- (8) The guarantor was changed to China Xintiandi Property Company Limited during the three months ended March 31, 2014.
- (9) RMB70 million has been repaid during the three months ended March 31, 2014.
- (10) An additional RMB1,280 million has been drawn down and during the three months ended March 31, 2014.
- (11) RMB1 million has been repaid during the three months ended March 31, 2014.
- (12) RMB7 million has been repaid during the three months ended March 31, 2014.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

Borrower	Property	Principal amount outstanding	Principal amount unutilized and available	Maturity date	Guarantor	Location
		<i>(RMB in millions)</i>	<i>(RMB in millions)</i>			
Shanghai Yang Pu Centre Development Co., Ltd. ⁽¹³⁾	Shanghai KIC	490	—	April 20, 2014	Nil	Onshore
Shanghai Yang Pu Centre Development Co., Ltd. ⁽¹⁴⁾	Shanghai KIC	72	—	June 1, 2020	Nil	Onshore
Shanghai Knowledge and Innovation Community Development Co., Ltd. ⁽¹⁵⁾	Shanghai KIC	1	475	August 9, 2015	Nil	Onshore
Top Victory Development Limited	Shanghai KIC	281	—	May 23, 2014	Nil	Offshore
Shanghai Rui Qiao Property Development Co., Ltd. ⁽¹⁶⁾	Shanghai Hongqiao	1,360	2,188	October 28, 2016	Nil	Onshore
Shanghai Jiu Hai Rimmer Property Co., Ltd. ⁽¹⁷⁾	Shui On Plaza	15	—	February 20, 2014	Nil	Onshore
Rimmer Investments Limited ⁽¹⁸⁾	Shui On Plaza	695	—	February 14, 2014	The Parent Guarantor	Offshore
Shanghai Li Xing Hotel Co., Ltd. ⁽¹⁹⁾	Shanghai Langham Hotel	852	53	October 23, 2022	Nil	Onshore
Wuhan Shui On Tiandi Property Development Co., Ltd.	Wuhan Tiandi	350	—	June 8, 2020	Nil	Onshore
Wuhan Shui On Tiandi Property Development Co., Ltd.	Wuhan Tiandi	300	—	June 4 & 11, 2019	Nil	Onshore
Wuhan Shui On Tiandi Property Development Co., Ltd.	Wuhan Tiandi	600	—	July 10, 2017	Nil	Onshore
Wuhan Shui On Tiandi Property Development Co., Ltd.	Wuhan Tiandi	279	70	May 27, 2016	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd. ⁽²⁰⁾	Chongqing Tiandi	783	—	June 4, 2016	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.	Chongqing Tiandi	125	—	May 2, 2014	Nil	Onshore

(13) RMB20 million has been repaid during the three months ended March 31, 2014.

(14) RMB4 million has been repaid during the three months ended March 31, 2014.

(15) An additional RMB52 million has been drawn down and RMB1 million has been repaid during the three months ended March 31, 2014.

(16) An additional RMB278 million has been drawn down during the three months ended March 31, 2014.

(17) The loan has been fully repaid during the three months ended March 31, 2014.

(18) The loan has been fully repaid during the three months ended March 31, 2014.

(19) An additional RMB11 million has been drawn down and RMB20 million has been repaid during the three months ended March 31, 2014.

(20) RMB5 million has been repaid during the three months ended March 31, 2014.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

Borrower	Property	Principal amount outstanding	Principal amount unutilized and available	Maturity date	Guarantor	Location
		<i>(RMB in millions)</i>	<i>(RMB in millions)</i>			
Chongqing Shui On Tiandi Property Development Co., Ltd.	Chongqing Tiandi	61	260	December 10, 2014	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.	Chongqing Tiandi	380	—	December 15, 2015	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.	Chongqing Tiandi	390	—	October 16, 2015	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.	Chongqing Tiandi	449	10	January 10 2016	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd. ⁽²¹⁾	Chongqing Tiandi	79	—	January 28 2016	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co. Ltd. ⁽²²⁾	Chongqing Tiandi	287	10	September 4 2015	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd. ⁽²³⁾	Chongqing Tiandi	500	—	August 15, 2018	Nil	Onshore
Chongqing Shui On Tiandi Property Development Co., Ltd.	Chongqing Tiandi	700	—	August 12, 2016	Nil	Onshore
Fo Shan Shui On Property Development Co., Ltd.	Foshan Lingnan Tiandi	30	—	November 28, 2014	Nil	Onshore
Fo Shan Shui On Property Development Co., Ltd. ⁽²⁴⁾	Foshan Lingnan Tiandi	370	20	January 8, 2017	Nil	Onshore
Fo Shan Yi Kang Property Development Co., Ltd.	Foshan Lingnan Tiandi	395	—	January 3, 2018	Nil	Onshore
Fo Shan An Ying Property Development Co., Ltd. ⁽²⁵⁾	Foshan Lingnan Tiandi	245	—	March 10, 2014	Nil	Onshore
Fo Shan Yong Rui Property Development Co., Ltd. ⁽²⁶⁾	Foshan Lingnan Tiandi	7	593	May 20, 2017	Nil	Onshore
Fo Shan An Ying Property Development Co., Ltd. ⁽²⁷⁾	Foshan Lingnan Tiandi	150	490	August 13, 2016	Nil	Onshore

(21) RMB35 million has been repaid during the three months ended March 31, 2014.

(22) RMB45 million has been repaid during the three months ended March 31, 2014.

(23) The loan has been fully repaid during the three months ended March 31, 2014.

(24) An additional RMB20 million has been drawn down and RMB1 million has been repaid during the three months ended March 31, 2014.

(25) The loan has been fully repaid during the three months ended March 31, 2014.

(26) RMB143 million has been drawn down during the three months ended March 31, 2014.

(27) RMB400 million has been drawn down during the three months ended March 31, 2014.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

Borrower	Property	Principal amount outstanding	Principal amount unutilized and available	Maturity date	Guarantor	Location
		<i>(RMB in millions)</i>	<i>(RMB in millions)</i>			
King Concord Limited ⁽²⁸⁾	Shanghai Hongqiao	488	—	April 20, 2014	The Parent Guarantor	Offshore
Total Bank and other Borrowings of the Issuer's Subsidiaries . . .		<u>21,543</u>	<u>13,779</u>			

The following table sets out a summary of the additional bank borrowings of the Issuer's subsidiaries since December 31, 2013:

Borrower	Property	Principal amount outstanding	Principal amount unutilized and available	Maturity date	Guarantor	Location
		<i>(RMB in millions)</i>	<i>(RMB in millions)</i>			
Shanghai Yang Pu Centre Development Co., Ltd	Shanghai KIC	20	470	February 28, 2029	Nil	Onshore
Shanghai Jiu Hai Rimmer Property Co., Ltd.	Shui On Plaza	15	—	February 11, 2017	Nil	Onshore
Rimmer Investments Limited . . .	Shui On Plaza	868	—	February 11, 2017	China Xintiandi Property Company Limited	Offshore
Additional Bank Borrowings of the Issuer's Subsidiaries since December 31, 2013 . . .		<u>903</u>	<u>470</u>			

(28) The guarantor was changed to China Xintiandi Property Company Limited during the three months ended March 31, 2014.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

Borrowings

The following table sets out a summary of the outstanding bank borrowings of the Issuer and the Parent Guarantor as of December 31, 2013:

<u>Borrower</u>	<u>Principal amount outstanding</u> <i>(RMB in millions)</i>	<u>Principal amount unutilized and available</u> <i>(RMB in millions)</i>	<u>Maturity date</u>	<u>Guarantor</u>	<u>Location</u>
Shui On Development (Holding) Limited ⁽¹⁾	314	—	March 30, 2014	The Parent Guarantor	Offshore
Shui On Development (Holding) Limited ⁽²⁾	236	—	March 4, 2014	The Parent Guarantor	Offshore
Shui On Development (Holding) Limited	311	—	November 1, 2014	The Parent Guarantor	Offshore
Shui On Development (Holding) Limited ⁽³⁾	387	—	March 25, 2016	The Parent Guarantor	Offshore
Shui On Development (Holding) Limited	472	—	March 28, 2014	The Parent Guarantor	Offshore
Shui On Development (Holding) Limited ⁽⁴⁾	157	—	August 13, 2014	The Parent Guarantor	Offshore
Shui On Development (Holding) Limited	390	—	June 30, 2014	The Parent Guarantor	Offshore
Shui On Development (Holding) Limited	312	—	December 30, 2014	The Parent Guarantor	Offshore
Shui On Development (Holding) Limited ⁽⁵⁾	61	—	June 27, 2014	The Parent Guarantor	Offshore
Shui On Development (Holding) Limited	183	—	December 8, 2014	The Parent Guarantor	Offshore
Total Bank Borrowings of the Issuer and the Parent Guarantor	<u>2,823</u>	<u>—</u>			

The following table sets out a summary of the additional bank borrowings of the Issuer and the Parent Guarantor since December 31, 2013:

<u>Borrower</u>	<u>Principal amount outstanding</u> <i>(RMB in millions)</i>	<u>Principal amount unutilized and available</u> <i>(RMB in millions)</i>	<u>Maturity date</u>	<u>Guarantor</u>	<u>Location</u>
Shui On Development (Holding) Limited	—	236	March 4, 2017	The Parent Guarantor	Offshore
Additional Bank Borrowings of the Issuer and the Parent Guarantor since December 31, 2013	<u>—</u>	<u>236</u>			

(1) The loan has been extended with a new maturity date of April 30, 2014.

(2) The loan has been fully repaid during the three months ended March 31, 2014.

(3) RMB39 million has been repaid during the three months ended March 31, 2014.

(4) The loan has been fully repaid during the three months ended March 31, 2014.

(5) RMB31 million has been repaid during the three months ended March 31, 2014.

Debt Securities issued by the Parent Guarantor, the Issuer and its subsidiaries

The following sets out a summary of the debt securities issued by the Parent Guarantor, the Issuer and its subsidiaries as of the date of this Offering Memorandum.

4.5% Convertible Bonds due 2015

On September 29, 2010, the Parent Guarantor had successfully completed issuance of unsecured RMB denominated US\$ settled 4.5% Convertible Bonds due 2015 in an aggregate principal amount of RMB2,720 million (equivalent to approximately US\$449 million).

So long as any such Convertible Bond remains outstanding, the Parent Guarantor will not, and will ensure that none of its Subsidiaries will, create or having outstanding, any encumbrance, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any indebtedness.

The Convertible Bonds can be converted at the adjusted conversion price of HK\$3.88 (Initially at HK\$4.87) on and after November 9, 2010 if such Convertible Bonds shall have been called for redemption by the Parent Guarantor before the maturity date.

On September 29, 2013 (the “**Put Option Date**”), the Parent Guarantor redeemed some of the principal amount of such Convertible Bond. Upon the Redemption, the aggregate principal amount of the Bonds remain outstanding was RMB433.5 million.

7.625% Senior Notes due 2015

On January 26, 2011, the Issuer successfully completed issuance of unsecured RMB denominated US\$ settled 7.625% Senior Notes due 2015 in an aggregate principal amount of RMB3,500 million (equivalent to approximately US\$578 million).

At any time prior to the maturity date of the 7.625% Senior Notes, the 7.625% Senior Notes may be redeemed at 100% of the principal amount of the 7.625% Senior Notes plus an applicable premium.

The 7.625% Senior Notes may be redeemed upon the occurrence of a change of control and change in tax laws.

The 7.625% Senior Notes are governed by a set of covenants, including the restriction on guarantee of other indebtedness of certain restricted subsidiaries.

8% Senior Notes due 2015

On January 26, 2012, Shui On Development (Singapore) Pte. Ltd. successfully completed issuance of unsecured 8% Senior Notes due 2015 in an aggregate principal amount of S\$250 million (equivalent to approximately US\$198 million).

At any time prior to the maturity date of the 8% Senior Notes, the 8% Senior Notes may be redeemed at 100% of the principal amount of the 8% Senior Notes plus an applicable premium.

The 8% Senior Notes may be redeemed upon the occurrence of a change of control and change in tax laws.

The 8% Senior Notes are governed by a set of covenants, including the restriction on guarantee of other indebtedness of certain restricted subsidiaries and restrictions on the activities of Shui On Development (Singapore) Pte. Ltd.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

9.75% Senior Notes due 2015

On February 16, 2012 and February 29, 2012, the Issuer successfully completed issuance of unsecured 9.75% Senior Notes due 2015 in an aggregate principal amount of US\$400 million and US\$75 million, respectively.

On August 6, 2012, the Issuer successfully completed issuance of additional unsecured 9.75% Senior Notes due 2015 amounted to US\$400 million.

10.125% Senior Perpetual Capital Securities callable 2017

On December 4, 2012, the Issuer successfully completed issuance of US\$500 million 10.125% guaranteed Perpetual Capital Securities at an issue price of 100%.

Distributions on the 10.125% Perpetual Capital Securities are paid semi-annually in arrears from June 10, 2013 and can be deferred at the discretion of the Issuer.

The 10.125% Perpetual Capital Securities have no fixed maturity and are redeemable at the Issuer's option on or after December 10, 2017 at their principal amounts together with any accrued, unpaid or deferred distributions.

Convertible Perpetual Securities for the Brookfield Investment

On February 17, 2014, CXTD Holding issued US\$500 million unsecured convertible perpetual securities to Brookfield at an issue price of 100%. The distribution rate will be 8.3% per annum prior to the fifth anniversary of the closing of the Initial Brookfield Investment and will be 20% per annum from and after such date.

The convertible perpetual securities have no fixed maturity and are redeemable by CXTD Holding's election beginning on the fifth anniversary of the closing of the Initial Brookfield Investment. The convertible perpetual securities may be converted into shares in CXTD Holding at any time at the option of the holder. From and including the third anniversary of the closing of the Initial Brookfield Investment, Brookfield may exercise a right under certain circumstances to convert its convertible perpetual securities into shares in Shui On Land.

Additional details of the transaction described above are set out in the announcements of Shui On Land, which are published and available on the website of the Hong Kong Stock Exchange.

6.875% Senior Notes due 2017

On February 26, 2014, the Issuer successfully completed issuance of unsecured 6.875% Senior Notes due 2017 in an aggregate principal amount of RMB2,500 million (equivalent to approximately US\$413 million). At any time prior to the maturity date of the 6.875% Senior Notes, the 6.875% Senior Notes may be redeemed at 100% of the principal amount of the 6.875% Senior Notes plus an applicable premium. The 6.875% Senior Notes may be redeemed upon the occurrence of a change of control and change in tax laws.

The 6.875% Senior Notes are governed by a set of covenants, including the restriction on guarantee of other indebtedness of certain restricted subsidiaries.

DESCRIPTION OF THE 2018 NOTES

For purposes of this “Description of the Notes,” (1) the term “Issuer” refers only to Shui On Development (Holding) Limited, and any successor obligor on the Notes, and not to any of its subsidiaries, (2) the term “Notes” refers to the 2018 Notes issued by the Issuer and (3) the term “Parent Guarantor” refers only to Shui On Land Limited, which guarantees the Notes (such guarantee is referred to as the “Parent Guarantee”) and any successor obligor on such guarantee, and not to any of its subsidiaries.

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of May 19, 2014 among the Issuer, the Parent Guarantor, as guarantor, and DB Trustees (Hong Kong) Limited, as trustee (the “Trustee”). The Notes will be issued under the same Indenture and form a single series with the corresponding series of Exchange Notes.

The following is a summary of certain provisions of the Indenture, the Notes and the Parent Guarantee. 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 and the Parent Guarantee. 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 DB Trustees (Hong Kong) Limited, Level 52 International Commerce Center, 1 Austin Road West, Kowloon, Hong Kong.

Brief Description of The Notes

The Notes are:

- general obligations of the Issuer;
- senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Issuer (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Parent Guarantor on a senior basis, subject to the limitations described below under the caption “— The Parent Guarantee” and in “Risk Factors — Risks Relating to the Notes — The Parent Guarantee and any guarantee by our subsidiaries of the Notes after the issue date may be challenged under applicable insolvency or fraudulent transfer laws which may affect the enforceability of such guarantees”;
- effectively subordinated to the secured obligations (if any) of the Issuer and the Parent Guarantor, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Subsidiaries (as defined below) of the Issuer.

The Notes will mature on May 19, 2018 unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 8.700% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on May 19 and November 19 of each year (each, an “Interest Payment Date”), commencing November 19, 2014. Interest on the Notes will be paid to Holders

DESCRIPTION OF THE 2018 NOTES

of record at the close of business on May 4 and November 4 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Principal Paying Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due and no interest on the Notes shall accrue for the period after such date.

The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$150,000 of principal amount 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 Issuer 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 Issuer at the office or agency of the Issuer maintained for that purpose (which initially will be the corporate trust administration office of the Principal Paying Agent of the Notes, currently located at Level 52 International Commerce Center, 1 Austin Road West, Kowloon, Hong Kong) and the Notes may be surrendered for registration of transfer or exchange at such office or agency; *provided, however*, that, at the option of the Issuer, payment of interest may instead be made by check mailed to the address of the Holders as such address appears in the Note register maintained by the Registrar. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

As of the date of the Indenture, all of the Parent Guarantor’s Subsidiaries other than the Issuer, China XTDH and each of its Subsidiaries will be “Restricted Subsidiaries.” Under the circumstances described below under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries,” the Parent Guarantor will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Parent Guarantor’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture.

The Parent Guarantee

The Parent Guarantor is a holding company that does not have significant operations other than its ownership of Capital Stock of the Issuer. The Issuer does not have significant operations other than financing activities and its ownership of Capital Stock of its Subsidiaries.

As of December 31, 2013, the Parent Guarantor and its consolidated subsidiaries had total consolidated bank and other borrowings of approximately RMB24,366 million (US\$4,025 million), of which approximately RMB21,857 million (US\$3,611 million) was secured, capital commitments of approximately RMB12,219 million (US\$2,018 million) and contingent liabilities of approximately RMB669 million (US\$111 million).

As of December 31, 2013, the Subsidiaries of the Issuer had total bank and other borrowings of approximately RMB21,543 million (US\$3,559 million), capital commitments of approximately RMB12,219 million (US\$2,018 million) and contingent liabilities of RMB324 million (US\$54 million).

The Parent Guarantee:

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

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, the Parent Guarantor (and, if required by the terms of the Notes and the Indenture, any Restricted Subsidiary (if any) Guaranteeing the Notes after the Original Issue Date) 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 Parent Guarantor (and, if required by the terms of the Notes and the Indenture, any Restricted Subsidiary (if any) Guaranteeing the Notes after the Original Issue Date) will (1) agree that its obligations under such Guarantee will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive its right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Issuer prior to exercising its rights under such Guarantee. 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 Parent Guarantee (or any Guarantee of the Notes by a Restricted Subsidiary (if any)) will be reinstated with respect to such payment as though such payment had not been made. All payments under the Parent Guarantee (or any Guarantee of the Notes by a Restricted Subsidiary (if any)) are required to be made in U.S. dollars.

See “Risk Factors — Risks Relating to the Notes.”

Release of the Parent Guarantee

The Parent Guarantee may be released in certain circumstances, including:

- upon repayment in full of the Notes; and
- upon a defeasance as described under “— Defeasance — Defeasance and Discharge.”

No release of the Parent Guarantor from its Parent Guarantee shall be effective against the Trustee or the Holders until the Issuer has delivered to the Trustee an Officer’s Certificate stating that all requirements relating to such release have been complied with and such release is authorized and permitted by the terms of the Indenture.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Issuer 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 Parent Guarantee) in all respects (or in all respects except for the issue date, issue price and the date and/or amount of the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock” covenant described below.

Optional Redemption

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

At any time and from time to time prior to the maturity date of the Notes, the Issuer may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Parent Guarantor in an Equity Offering at a redemption price of 108.700% 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 issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Issuer will give not less than 30 days’ nor more than 60 days’ notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis or by such method as the Trustee deems fair and appropriate.

A Note of US\$150,000 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

Not later than 30 days following a Change of Control, the Issuer or the Parent Guarantor 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 Issuer and the Parent Guarantor have agreed in the Indenture that they 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 Issuer and the Parent Guarantor, it is important to note that if the Issuer or the Parent Guarantor 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, the Issuer and the Parent Guarantor, as applicable, would continue to be prohibited from purchasing the Notes. In that case, the failure of the Issuer and the Parent Guarantor to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control under the Notes may also constitute a default or event of default under certain current and future debt instruments of the Parent Guarantor, the Issuer and the Issuer's Subsidiaries. Such debt instruments may also (1) prohibit the Issuer or the Parent Guarantor from purchasing Notes in the event of a Change of Control; (2) provide that a Change of Control is a default; or (3) require repurchase of the relevant debt upon a Change of Control.

Moreover, the exercise by the Holders of their right to require the Issuer and the Parent Guarantor to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control itself does not, due to the financial effect of the purchase on the Issuer or the Parent Guarantor. The ability of the Issuer or the Parent Guarantor to pay cash to the Holders following the occurrence of a Change of Control may be limited by its then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes — The Issuer and the Parent Guarantor may be unable to repurchase the Notes upon a Change of Control."

The phrase "all or substantially all", as used with respect to the assets of the Issuer and the Parent Guarantor in the definition of "Change of Control," will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Issuer or the Parent Guarantor has occurred.

Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Issuer or the Parent Guarantor purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. The Trustee shall not be required to take any steps to ascertain whether a Change of Control has occurred or may occur, and shall be entitled to assume that no such event has occurred until it has received written notice to the contrary from the Issuer or the Parent Guarantor. The Trustee shall not be required to take any steps to ascertain whether the condition for the exercise of the rights herein has occurred. The Trustee shall not be responsible for determining or verifying whether a Note is to be accepted for repurchase and will not be responsible to the Holders for any loss arising from any failure by it to do so. The Trustee and the Principal Paying Agent shall not be under any duty to determine, calculate or verify the repurchase amount payable hereunder and will not be responsible to the Holders for any loss arising from any failure by it to do so.

No Mandatory Redemption Or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes. However, under certain circumstances (including as described under "Repurchase of Notes Upon a Change of Control") the Issuer may be required to repurchase Notes. The Issuer and the Parent Guarantor may also at any time and from time to time purchase Notes in the open market or otherwise.

Additional Amounts

All payments of principal of, premium (if any) and interest on the Notes and all payments under the Parent Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Issuer, the Parent Guarantor or a Surviving Person (as defined under the caption “— Consolidation, Merger and Sale of Assets”) is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a “Relevant Taxing Jurisdiction”), or the jurisdiction through which payments are made (each, as applicable and with each Relevant Taxing Jurisdiction, 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 Issuer, the Parent Guarantor or a Surviving Person, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction, other than merely holding such Note or the receipt of payments thereunder or under the Parent 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 Issuer, the Parent Guarantor or a Surviving Person addressed to the Holder 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 under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
 - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

- (c) any withholding or deduction that is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) or (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a partner 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 the Parent 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 Issuer or a Surviving Person with respect to the Issuer, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders (and notice, reasonably in advance of such notice to the Holders, to the Trustee and the Principal Paying Agent), which notice shall be irrevocable, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Issuer or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective (i) except as provided in (ii) below, on or after the Original Issue Date, or (ii) with respect to any Surviving Person (other than a Surviving Person tax resident in the jurisdiction of tax residence of the Issuer or the Parent Guarantor, as the case may be), on or after the date such Surviving Person becomes a Surviving Person, with respect to any payment due or to become due under the Notes (including the Parent Guarantee) or the Indenture, the Issuer, the Parent Guarantor or a Surviving Person, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Issuer, the Parent Guarantor or a Surviving Person, 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 Issuer, the Parent Guarantor or a Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Notwithstanding anything to the contrary herein, the Issuer or a Surviving Person may not redeem the Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of

DESCRIPTION OF THE 2018 NOTES

10% or less solely as a result of the Issuer, the Parent Guarantor or a Surviving Person being considered a PRC tax resident under the EIT Law if payments of dividends or interest from the Issuer's, or Surviving Person's (with respect to the Issuer), PRC Subsidiaries to the Issuer or Surviving Person (with respect to the Issuer) are then exempt from PRC withholding tax.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer, the Parent Guarantor or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that a 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 Issuer, the Parent Guarantor or such Surviving Person, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from a change or amendment referred to in this section entitled "Redemption for Taxation Reasons."

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) Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), *provided* that each of the Parent Guarantor and the Issuer 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 or Permitted Subsidiary Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.0 to 1.0.
- (2) Notwithstanding the foregoing, each of the Parent Guarantor and the Issuer 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 the Parent Guarantee;
 - (b) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (c); *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;
 - (c) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary owed to the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (c) and (ii) with respect to any Indebtedness Incurred after the Original Issue Date, if the Parent Guarantor or the Issuer is the obligor on such Indebtedness (and the Issuer or Parent Guarantor is not the obligee), such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Notes, in the case of the Issuer, and the Parent Guarantee, in the case of the Parent Guarantor;

- (d) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness repaid substantially concurrently with but in any case before the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (f), (m), (n), (q) or (r) 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 the Parent Guarantee shall only be permitted under this clause (d) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or the Parent Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or the Parent Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or the Parent Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or the Parent Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or the Parent 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 Issuer or the Parent Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary;
- (e) Indebtedness Incurred by the Parent Guarantor, the Issuer or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Parent Guarantor, the Issuer or any Restricted Subsidiary from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (f) Indebtedness Incurred by the Parent Guarantor, the Issuer 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 Issuer 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, (y) all or any part of the purchase price or the cost of development, construction or improvement 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 Issuer or a Restricted Subsidiary in the Permitted Business, or (z) the Wuhan Tiandi Project; *provided* that (i) in the case of each of clauses (x) and (y) of this clause (f), (A) the net proceeds of such Indebtedness shall not exceed such purchase price or cost and (B) unless such Incurrence is as a result of a Restricted Subsidiary ceasing to be a Restricted Subsidiary or as a result of a transfer of Indebtedness, in which case this sub-clause (B) shall not apply, such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (ii) in the case of each of clauses (x), (y) and (z) of this clause (f), on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (aa) the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (f) (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) plus (bb) the sum of the aggregate amount outstanding of all Indebtedness permitted under clauses (n) or (r) below (together with refinancings thereof, but excluding any Guarantee Incurred under such clause (n) or (r) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;

- (g) Indebtedness Incurred by the Parent Guarantor, the Issuer 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);
- (h) Indebtedness Incurred by the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or such Restricted Subsidiary of a demand for reimbursement;
- (i) 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 Parent Guarantor, the Issuer 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;
- (j) 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;
- (k) Guarantees by the Parent Guarantor, the Issuer or any Restricted Subsidiary of Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant; *provided* that, in the case of a Guarantee by a Restricted Subsidiary of Indebtedness of the Parent Guarantor or the Issuer, such Guarantee shall comply with the "—Limitations on Issuances of Guarantees by Restricted Subsidiaries" covenant;

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- (l) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary with a maturity of one year or less used by the Parent Guarantor, the Issuer or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (l) at any time outstanding does not exceed US\$25.0 million (or the Dollar Equivalent thereof);
- (m) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$75.0 million (or the Dollar Equivalent thereof);
- (n) Indebtedness Incurred by any Restricted Subsidiary which is secured by Investment Properties or by the assets or the Capital Stock of a Restricted Subsidiary directly or indirectly owning such Investment Properties; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, (i) the aggregate principal amount outstanding of all such Indebtedness permitted under this clause (n) (together with refinancings thereof, but excluding any Guarantee thereof to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed 75% of the total Fair Market Value of such Investment Properties and (ii) the sum of (x) the aggregate amount outstanding of all Indebtedness permitted under this clause (n) (together with refinancings thereof, but excluding any Guarantee Incurred under this clause (n) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (y) the aggregate amount outstanding of all Indebtedness permitted under clauses (f) above or (r) below (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under such clause (f) and any Guarantee Incurred under such clause (r) below to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35 % of Total Assets;
- (o) Pre-Registration Mortgage Guarantees by the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (p) Guarantees by the Parent Guarantor or the Issuer of Indebtedness or other obligations related to the Dalian Tiandi Project in an aggregate amount not to exceed RMB1.0 billion;
- (q) Indebtedness of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Parent Guarantor, the Issuer or any Restricted Subsidiary (other than Indebtedness incurred to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Parent Guarantor, the Issuer or a Restricted Subsidiary); *provided, however*, with respect to this clause (q), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred (x) the Parent Guarantor or the Issuer would have been able to incur US\$1.00 of additional Indebtedness pursuant to the proviso in the first paragraph of part (1) of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock” after giving pro forma effect to the incurrence of such Indebtedness pursuant to this clause (q) or (y) the Fixed Charge Coverage Ratio would not be lower than it was immediately prior to giving pro forma effect to the incurrence of such Indebtedness pursuant to this clause (q);
- (r) Indebtedness Incurred by the Parent Guarantor, the Issuer or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) and/or a Lien on the assets of the Parent Guarantor, the Issuer or such Restricted Subsidiary,

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provided that on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (x) the aggregate principal amount outstanding of all Indebtedness permitted under this clause (r) (together with refinancings thereof, but excluding any Guarantee Incurred under this clause (r) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (y) the aggregate principal amount outstanding of all Indebtedness permitted under clauses (f) and (n) above (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under such clause (f) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets; and

- (s) Indebtedness arising in connection with the Brookfield Investment in an aggregate amount not to exceed US\$30,000,000 (or the Dollar Equivalent thereof).
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (1), the Issuer or the Parent Guarantor, in its sole discretion, shall classify or reclassify, or later divide, classify or reclassify, such item of Indebtedness (or any portion thereof) in any manner that complies with this covenant.

If the Issuer or the Parent Guarantor reclassifies an item of Indebtedness (or any portion thereof) such reclassified Indebtedness shall be deemed to have been incurred for the purposes of the satisfaction of the criteria for the types of Indebtedness described above on the date of such reclassification.

- (4) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; provided that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

Each of the Parent Guarantor and the Issuer 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 Parent Guarantor’s, the Issuer’s or any Restricted Subsidiary’s Capital Stock (other than dividends or

distributions payable or paid in shares of the Parent Guarantor, the Issuer's or any Restricted Subsidiary's 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 Parent Guarantor, the Issuer or any of the Issuer's Wholly Owned Restricted Subsidiaries;

- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Parent Guarantor, the Issuer or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Issuer held by any Persons other than the Parent Guarantor, the Issuer or any of the Issuer's Wholly Owned Restricted Subsidiaries;
- (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 the Parent Guarantee (excluding any intercompany Indebtedness between or among the Parent Guarantor, the Issuer and any of the Issuer's Wholly Owned Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Issuer could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption "— Limitation on Indebtedness and Preferred Stock;" or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Parent Guarantor, the Issuer and any Restricted Subsidiary after the Measurement Date, shall exceed the sum of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Parent Guarantor (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 2013 Notes were originally issued and ending on the last day of the Parent Guarantor's most recently ended semi-annual period for which consolidated financial statements of the Parent Guarantor (which the Parent Guarantor 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 Parent Guarantor after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Parent Guarantor, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Parent Guarantor or the Issuer into Capital Stock (other than Disqualified Stock) of the Parent Guarantor, or (B) the exercise by a Person who is not a Subsidiary of the Parent Guarantor of any options, warrants or other rights to acquire Capital Stock of the Parent Guarantor (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 Parent Guarantor or the Issuer; plus

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- (iii) the amount by which Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary is reduced on the Parent Guarantor's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Parent Guarantor) subsequent to the Measurement Date of any Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Parent Guarantor (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Parent Guarantor upon such conversion or exchange); plus
- (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Parent Guarantor, the Issuer or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (B) the unconditional release of a Guarantee provided by the Parent Guarantor, the Issuer or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Parent Guarantor, the Issuer or a Restricted Subsidiary after the Measurement Date in any such Person; plus
- (v) US\$25.0 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 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Parent Guarantor or the Issuer with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness or the redemption, repurchase, defeasance or other acquisition or retirement for value of any Reclassified Intra-Group Indebtedness which is subordinated in right of payment to the Notes in accordance with clause (c)(ii) of the second paragraph of the covenant described under the caption "—Limitation on Indebtedness and Preferred Stock";
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Parent Guarantor or the Issuer (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Parent Guarantor) of, shares of the Capital Stock (other than Disqualified Stock) of the Parent Guarantor or the Issuer (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);

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- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Parent Guarantor or the Issuer 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 Parent Guarantor) of, shares of Capital Stock (other than Disqualified Stock) of the Parent Guarantor or the Issuer (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);
 - (5) the payment of any dividends or distributions declared, paid or made by the Issuer or a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Parent Guarantor, to all holders of any class of Capital Stock of the Issuer or such Restricted Subsidiary, as the case may be, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Parent Guarantor;
 - (6) the purchase by the Parent Guarantor, the Issuer or a Restricted Subsidiary of Capital Stock in any other Restricted Subsidiary pursuant to an agreement entered into by the Parent Guarantor, the Issuer or such Restricted Subsidiary with a third party that is not a Person described in clause (x) or (y) of the first paragraph of the covenant under the caption “—Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such Person being an officer, director or shareholder of a Restricted Subsidiary); *provided* that the purchase price of such Capital Stock is less than or equal to the Fair Market Value of such Capital Stock (determined by multiplying the Fair Market Value of such Restricted Subsidiary by the percentage that such Capital Stock represents in the total Capital Stock of such Restricted Subsidiary);
 - (7) the transfer, dividend or distribution of (i) no more than 30% of the Common Stock of China XTD or a Subsidiary of China XTD to Shareholders of the Parent Guarantor solely for the purposes of obtaining a Listing by Introduction of China XTD or such Subsidiary of China XTD or (ii) no more than 10% of the Common Stock of China XTD or a Subsidiary of China XTD to shareholders of the Parent Guarantor solely for the purposes of satisfying any obligations to shareholders of the Parent Guarantor (including any assured entitlement obligations of the Parent Guarantor under Practice Note 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) in the context of a Listing by means of an initial public offering (which, for the avoidance of doubt, excludes a Listing by Introduction) of China XTD or such Subsidiary of China XTD, *provided* that in each case, after giving effect to such transfer, dividend or distribution, the China XTD Ownership Condition continues to be met;
 - (8) the payment of any cash settlement amount by the Parent Guarantor, the Issuer or any Restricted Subsidiary in respect of any warrant or option described in the Brookfield Announcement granted in connection with the Brookfield Investment, *provided* that such amount is taken into account in the calculation under clause (16) of the definition of Permitted Investment; or
 - (9) the conversion or exchange into equity or other securities issued by the relevant investee of any Investment, that at the time the original Investment was made, was not prohibited by the terms of the Indenture,

provided that, in the case of clause (2), (3), (4), (6), (7) or (8) 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) 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.

Clause (b) of the first paragraph of this “— Limitation on Restricted Payments” covenant does not have to be satisfied with respect to any Restricted Payment consisting solely of (i) the declaration or payment of dividends on the Common Stock of the Parent Guarantor or (ii) the redemption, repurchase or other acquisition of shares of Common Stock of the Parent Guarantor as permitted under any general mandate approved by shareholders of the Parent Guarantor at the relevant annual general meeting, in an aggregate amount not to exceed, with respect to any Two Semi-Annual Period, together with any other such dividend declared or paid or redemption, repurchase or other acquisition of shares of Common Stock with respect to the same Two Semi-Annual Period, 20.0% of the consolidated “profit for the year” of the Parent Guarantor calculated in accordance with GAAP for such Two Semi-Annual Period.

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 Parent Guarantor, the Issuer 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. Other than in respect of Restricted Payments consisting of Investments in a China XTD Group Company, the Board of Directors’ determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payment set forth in clause (7) above), the Parent Guarantor 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.

For any determination or calculation under this “— Limitation on Restricted Payments” covenant and the definitions related to Restricted Payments made and Consolidated Net Income and Net Sales Proceeds received prior to the Original Issue Date, such determination or calculation shall be made on the basis that China XTDH and its Subsidiaries were Restricted Subsidiaries at all times prior to January 23, 2014 and that accordingly, for the avoidance of doubt, such determinations and calculations for any such period prior to the Original Issue Date shall be made on a basis consistent with any such equivalent determination or calculation made for the purposes of the 2015 Notes.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Parent Guarantor, the Issuer or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Parent Guarantor, the Issuer or any other Restricted Subsidiary;
 - (c) make loans or advances to the Parent Guarantor, the Issuer or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Parent Guarantor, the Issuer 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 Parent Guarantee, the Indenture, any extensions, refinancings, renewals or replacements of any of the foregoing agreements and any subsequent 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;
 - (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 Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Parent Guarantor, the Issuer or any Restricted Subsidiary in any manner material to the Parent Guarantor, the Issuer or any Restricted Subsidiary;
 - (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants;
 - (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness of the type described under clause (2)(f), (n), (q) or (r) or permitted under clause (2)(l) or 2(m) of the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Issuer to make required payment on the Notes and, with respect to Indebtedness of the type described in clause 2(f), (n), (q) or (r) or permitted under clause 2(m), 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; or

- (g) existing in customary provisions in joint venture agreements, other agreements in relation to a joint venture or establishing a joint venture and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to or subject of such joint venture or proposed joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type or an agreement in relation to a joint venture or establishing a joint venture and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Issuer to make the required payments on the Notes, or (y) the Parent Guarantor to make required payments under the Parent Guarantee.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

Each of the Parent Guarantor and the Issuer 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 Parent Guarantor, the Issuer or any of the Issuer's Wholly Owned Restricted Subsidiaries;
- (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 Parent Guarantor, the Issuer or any of the Issuer's Wholly Owned Restricted Subsidiaries;
- (3) for the sale of shares of all the Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the "— Limitation on Asset Sales" covenant;
- (4) for the issuance or sale of shares of Capital Stock of Restricted Subsidiaries primarily engaged in the Wuhan Tiandi Project; *provided* that the Parent Guarantor, the Issuer or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant; or
- (5) for 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 Parent Guarantor, the Issuer 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

Each of the Parent Guarantor and the Issuer will not permit any Restricted Subsidiary, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Parent Guarantor or the Issuer, unless (1) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Guarantee of payment of the Notes by such Restricted Subsidiary and (2) 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 Parent Guarantor, the Issuer or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Guarantee of the Notes until the Notes have been paid in full.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or the Parent Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Notes or the Parent Guarantee, as the case may be, or (2) is

subordinated in right of payment to the Notes or the Parent Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Parent Guarantee of the Notes, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Parent Guarantee.

Limitation on Transactions with Shareholders and Affiliates

Each of the Parent Guarantor and the Issuer 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 Parent Guarantor or (y) any Affiliate of the Parent Guarantor or the Issuer (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Parent Guarantor or the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Parent Guarantor, the Issuer or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Parent Guarantor or the Issuer; and
- (2) the Parent Guarantor 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\$15.0 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 Parent Guarantor, the Issuer or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees to directors of the Parent Guarantor or the Issuer who are not employees of the Parent Guarantor or the Issuer;
- (2) transactions between or among the Parent Guarantor, the Issuer and any of the Issuer’s Wholly Owned Restricted Subsidiaries or between or among such Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clause (1) or (2) of the first paragraph of the covenant described above under the caption “— Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Parent Guarantor;

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- (5) the payment of compensation to employees, officers, directors and other designated persons pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme; and
- (6) the payment of compensation (including cash bonuses) to executive directors of the Parent Guarantor or the Issuer in their capacity as employees of the Parent Guarantor or the Issuer.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the “Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Parent Guarantor, the Issuer and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among any of the Parent Guarantor, the Issuer or any of the Issuer’s Wholly Owned Restricted Subsidiaries and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary of the Issuer or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries of the Issuer; *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. In addition, provided that the China XTD Ownership Condition is met, the requirements of clause (2)(b) of the first paragraph of this covenant shall not apply to transactions or any series of transactions between or among the Parent Guarantor, the Issuer or any Restricted Subsidiary on the one hand and any China XTD Group Company on the other hand or between or among any of the China XTD Group Companies.

Limitation on Liens

Each of the Parent Guarantor and the Issuer 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, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that each of the Parent Guarantor and the Issuer may enter into a Sale and Leaseback Transaction if:

- (1) the Parent Guarantor or the Issuer, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the first paragraph of 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 Parent Guarantor or the Issuer, as the case may be, applies the proceeds of such transaction in compliance with, the covenant described below under the caption “— Limitation on Asset Sales.”

Limitation on Asset Sales

Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale other than an Asset Sale comprising the sale, transfer or disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) to any China XTD Group Company of any SOL Commercial Property or Reclassified Intra-Group Indebtedness, 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 Parent Guarantor, the Issuer or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Parent Guarantor, the Issuer or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$20.0 million (or the Dollar Equivalent thereof), the Parent Guarantor shall deliver to the Trustee an opinion as to the fairness to the Parent Guarantor, the Issuer or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Parent Guarantor's most recent consolidated balance sheet, of the Parent Guarantor, the Issuer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, or the Parent Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Parent Guarantor, the Issuer or such Restricted Subsidiary from further liability;
 - (b) any securities, notes or other obligations received by the Parent Guarantor, the Issuer or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Parent Guarantor, the Issuer or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion; and
 - (c) any liabilities as shown on the Parent Guarantor's most recent consolidated balance sheet, of the Parent Guarantor, the Issuer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, or the Parent Guarantee) owed to the transferee or any member of the transferee's group which are released, written-off or otherwise entitlement in connection with the Asset Sale.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Parent Guarantor, the Issuer or the applicable Restricted Subsidiary, as the case may be, may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Parent Guarantor or the Issuer or any Indebtedness of a Restricted Subsidiary (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 Parent Guarantor, the Issuer or a Restricted Subsidiary;
- (2) pay land, relocation, construction and other development costs relating to the construction of projects of any Restricted Subsidiary;
- (3) acquire Replacement Assets (which acquisition may be effected through the Parent Guarantor, the Issuer or any Restricted Subsidiary); or

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- (4) in the case of any Net Cash Proceeds from a sale of shares of Capital Stock of a Person that is not a direct or indirect Subsidiary of the Parent Guarantor, make Investments constituting Permitted Investments under clause (16) of the definition thereof.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) through (4) in the immediately preceding paragraph will constitute “Excess Proceeds.” Excess Proceeds of less than US\$20.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$20.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Issuer 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 Dollar Equivalent of the outstanding principal amount of the Notes and (y) the denominator of which is equal to the Dollar Equivalent of the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Issuer may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale comprising the sale, transfer or disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) to any China XTD Group Company of any SOL Commercial Property or Reclassified Intra-Group Indebtedness, unless:

- (i) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (ii) the consideration received by the Parent Guarantor, the Issuer 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.

Any Net Cash Proceeds received in connection with such an Asset Sale and any cash received on or upon the conversion of any securities received in such an Asset Sale shall be applied in accordance with second to fifth paragraphs of the covenant described under the caption “—Limitation on Asset Sales.”

Limitation on the Parent Guarantor’s and the Issuer’s Business Activities

Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; provided, however, that the Issuer 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.”

The Parent Guarantor will at all times own the entire issued and outstanding Capital Stock of the Issuer.

Use of Proceeds

Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated, under the caption “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) none of the Parent Guarantor, the Issuer and any Restricted Subsidiary provides credit support for the Indebtedness of such Restricted Subsidiary, except with respect to Indebtedness incurred pursuant to clause (r) of the second paragraph of the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock” (or refinancings thereof); (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Parent Guarantor or the Issuer or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Parent Guarantor, the Issuer 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;” *provided further* that, with respect to any designation by the Board of Directors of any of the China XTD Group Companies (and or any of their respective Restricted Subsidiaries) as Unrestricted Subsidiaries clauses (2), (3), (4), (5) and (6) above shall not apply if (x) the China XTD Ownership Condition is satisfied at such time and (y) to the extent that the assets of the Restricted Subsidiaries being designated as Unrestricted Subsidiaries are comprised of assets other than SOL Commercial Properties and Reclassified Intra-Group Indebtedness, the Board of Directors shall determine the Fair Market Value of such other assets and elect that either (i) an amount equal to such Fair Market Value shall be accounted for as an Investment made pursuant to clause (16) of the definition of “Permitted Investments” or (ii) an amount equal to such Fair Market Value shall be deducted from the amount calculated pursuant to clause (c) of the first paragraph of the covenant described under the caption “—Limitation on Restricted Payments” in calculating whether the conditions of such clause (c) have been met with respect to any subsequent Restricted Payments.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock;” (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been

incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “— Limitation on Liens;” and (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary). All designations must be evidenced by resolutions of the Board of Directors delivered to the Trustee certifying compliance with the preceding provisions.

Government Approvals and Licenses; Compliance with Law

Each of the Parent Guarantor and the Issuer 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 Parent Guarantor, the Issuer and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Parent Guarantor or the Issuer to perform its obligations under the Notes, the Parent Guarantee or the Indenture.

Anti-Layering

Each of the Parent Guarantor and the Issuer will not Incur any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Parent Guarantor or the Issuer, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes or the Parent Guarantee, as the case may be, 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.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Parent Guarantor 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 Parent Guarantor’s Common Stock 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 Parent Guarantor ceases to be listed for trading on a recognized stock exchange, the Parent Guarantor 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 Parent Guarantor, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Parent Guarantor, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and

- (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Parent Guarantor, 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 Parent Guarantor together with a certificate signed by the person then authorized to sign financial statements on behalf of the Parent Guarantor to the effect that such financial statements are true in all material respects and present fairly the financial position of the Parent Guarantor 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 Parent Guarantor 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 semiannual 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, with a certificate from the Parent Guarantor's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; and (b) as soon as possible and in any event within 30 days after the Parent Guarantor 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 Parent Guarantor proposes to take with respect thereto. The Trustee shall not be responsible for the determination of the Fixed Charge Coverage Ratio or the verification thereof in the Officers' Certificate.

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," or the failure by the Issuer and the Parent Guarantor to make or consummate an Offer to Purchase in the manner described under the captions "— Repurchase of Notes upon a Change of Control" or "— Limitation on Asset Sales;"
- (4) the Parent Guarantor, the Issuer 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 clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary having an outstanding principal amount of US\$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Parent Guarantor, the Issuer or any Restricted Subsidiary and are not paid or discharged, and there is

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a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$10.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Issuer's or Parent Guarantor's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

- (7) an involuntary case or other proceeding is commenced against the Parent Guarantor, the Issuer or any Restricted 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 Parent Guarantor, the Issuer or any Restricted Subsidiary or for any substantial part of the property and assets of the Parent Guarantor, the Issuer or any 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 Parent Guarantor, the Issuer or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Parent Guarantor, the Issuer or any Restricted 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 Parent Guarantor, the Issuer or any Restricted Subsidiary or for all or substantially all of the property and assets of the Parent Guarantor, the Issuer or any Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors; or
- (9) the Parent Guarantor denies or disaffirms its obligations under the Parent Guarantee or, except as permitted by the Indenture, the Parent Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

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 may, and shall upon the request of Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Issuer, 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 Parent Guarantor, the Issuer 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 or any other Person.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Issuer and to the Trustee may on behalf of the Holders 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. Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee indemnity or security satisfactory to the Trustee. 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.

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 or security, or a combination of both, 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 or security; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Parent Guarantor must certify, 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 Parent Guarantor, the Issuer and the Restricted Subsidiaries and the Parent Guarantor, the Issuer's and the Restricted Subsidiaries performance under the Indenture and that the Parent Guarantor and the Issuer have 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. Each of the Parent Guarantor and the Issuer 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.” The Trustee and the Principal Paying Agent need not do anything to ascertain whether any Event of Default or Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so, and, the Trustee or the Principal Paying Agent may assume that no such event has occurred and that the Issuer is performing all its obligations under the Indenture and the Notes unless an officer of the Trustee has actual knowledge or the Trustee has received written notice of the occurrence of such event or facts establishing that the Issuer is not performing all of its obligations under the Indenture and the Notes or an Event of Default has occurred. Neither the Trustee nor the Principal Paying Agent shall be required to verify any information in such notice.

Consolidation, Merger and Sale of Assets

Each of the Parent Guarantor and the Issuer 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 Parent Guarantor or the Issuer, as the case may be, shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the “Surviving Person”) shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture (in form and substance reasonably satisfactory to the Trustee), executed and delivered to the Trustee, all the obligations of the Parent Guarantor or the Issuer, as the case may be, under the Indenture, the Notes and the Parent Guarantee, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes and the Parent Guarantee, 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 Parent Guarantor or the Surviving Person of the Parent Guarantor, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Parent Guarantor immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis the Issuer or the Surviving Person of the Issuer, 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 Parent Guarantor 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) in the case of the Issuer entering into such transaction, the Parent Guarantor shall execute and deliver a supplemental indenture to the Indenture confirming that its Parent Guarantee shall apply to the obligations of the Issuer or the Surviving Person in accordance with the Notes and the Indenture.

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 the Parent Guarantor with and into the Issuer, so long as the Issuer 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 Issuer or the Parent Guarantor that may adversely affect Holders.

No Payments for Consents

Each of the Parent Guarantor and the Issuer 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 Issuer 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 will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts, and to hold monies for payment in trust) if, among other things:

- (1) the Issuer or the Parent Guarantor (a) has deposited with the Trustee (or its agent), in trust, money and/or U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity for such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Issuer or the Parent Guarantor is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;
- (2) the Issuer or the Parent Guarantor 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 Parent Guarantor, the Issuer or any of its Restricted Subsidiaries is a party or by which the Parent Guarantor, the Issuer or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Parent Guarantee will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4) and (5)(x) under the first paragraph under “— Consolidation, Merger and Sale of Assets” and all the covenants described herein under “— Certain Covenants,” other than as described under “— Certain Covenants-Government Approvals and Licenses; Compliance with Law” and “— Certain Covenants-Anti-Layering,” clause (3) under “Events of Default” with respect to clauses (3), (4) and (5)(x) under the first paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “Events of Default” with respect to such other covenants and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of money and/or U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event the Issuer exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of acceleration resulting from such Event of Default. However, the Issuer will remain liable for any such shortfall in payment.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture may be amended by the Issuer, the Parent Guarantor and the Trustee, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;
- (2) comply with the provisions described under “— Consolidation, Merger and Sale of Assets;”
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Guarantee of the Notes;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

- (6) add any collateral to secure the Notes or the Parent Guarantee;
- (7) 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;
- (8) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (9) to conform the text of the Indenture, the Notes or the Parent Guarantee 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 of the Indenture, the Notes or the Parent Guarantee, which intent may be evidenced by an Officers' Certificate to that effect; or
- (10) make any other change that does not materially and adversely affect the rights of any Holder.

Amendments With Consent of Holders

The Indenture may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes and the Trustee may amend or waive future compliance by the Parent Guarantor or the Issuer with any provision thereof; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on any Note;
- (3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note or the Parent Guarantee;
- (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 the Parent Guarantor from the Parent Guarantee, except as provided in the Indenture;
- (8) 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;
- (9) amend, change or modify the Parent Guarantee in a manner that adversely affects the Holders;
- (10) 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 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 from any Asset Sale;
- (11) change the redemption date or the redemption price of the Notes from that stated under the captions “— Optional Redemption” or “— Redemption for Taxation Reasons;”

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- (12) amend, change or modify the obligation of the Issuer or the Parent Guarantor to pay Additional Amounts; or
- (13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or the Parent Guarantee in a manner that adversely affects the Holders.

Unclaimed Money

Claims against the Parent Guarantor or the Issuer 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 Parent Guarantor or the Issuer in the Indenture, or in any of the Notes or the Parent Guarantee, 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 Parent Guarantor or the Issuer, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Parent Guarantee. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee and the Agents

DB Trustees (Hong Kong) Limited, has been appointed as Trustee under the Indenture and Deutsche Bank Luxembourg S.A. has been appointed as note registrar (the “Registrar”) and Deutsche Bank, AG, Hong Kong Branch has been appointed as the transfer agent (the “Transfer Agent”) and the principal paying agent (the “Principal Paying Agent”) and together with the Trustee, the Registrar and the Transfer Agent, the “Agents”) 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 will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs. Subject to such provisions, the Trustee shall be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders shall have offered to the Trustee indemnity and/or security satisfactory to it against any loss, cost, expense or liability. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of 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 Notes and has not relied on and will not rely on the Trustee or the Agents in respect of such risks.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Issuer or the Parent Guarantor, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Parent Guarantor, the Issuer and any of their respective Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

If the Issuer 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.

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, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of the Issuer 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.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “Global Note”). 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 depository 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 Parent Guarantor, the Issuer, the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Note

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and additional amounts) will be made to the Principal Paying Agent in U.S. dollars. The Principal Paying Agent will, in turn, make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures.

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Each of the Parent Guarantor and the Issuer 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 Parent Guarantor, the Issuer and the Trustee 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 Parent Guarantor, the Issuer, the Trustee 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 U.S. dollar 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 U.S. dollar 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 Issuer 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\$150,000 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.”

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 Parent Guarantor, the Issuer, the Trustee 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 bookentry 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 Issuer 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 Issuer has received a written request from a Holder, the Issuer and the Parent Guarantor 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 Issuer and the Parent Guarantor will use their 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 Issuer and the Registrar to complete, execute and deliver such individual definitive notes. 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.

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 mail (if intended for the Parent Guarantor or the Issuer or the Trustee) addressed to the Parent Guarantor, the Issuer 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

Each of the Parent Guarantor and the Issuer will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, the Parent 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 Parent Guarantee and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

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.

“2013 Notes” means the Issuer’s RMB3,000,000,000 US\$ Settled 6.875% Senior Notes due 2013 guaranteed by the Parent Guarantor.

“2015 Notes” means the Issuer’s US\$875 million in aggregate principal amount of 9.75% senior notes due 2015 guaranteed by the Parent Guarantor.

“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, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after May 19, 2018, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to 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, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the principal amount of the Notes plus (y) all required remaining scheduled interest payments due on such Note through the maturity date of the Notes (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Parent Guarantor, the Issuer or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary

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or shall be merged into or consolidated with the Parent Guarantor, the Issuer or any Restricted Subsidiary; or (2) an acquisition by the Parent Guarantor, the Issuer or any Restricted Subsidiary of the property and assets of any Person other than the Parent Guarantor, the Issuer or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Parent Guarantor, the Issuer or any Restricted Subsidiary (other than to the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or any Restricted Subsidiary.

“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 of Capital Stock of a Subsidiary of the Parent Guarantor or issuance of Capital Stock by the Issuer or a Restricted Subsidiary) in one transaction or a series of related transactions by the Parent Guarantor, the Issuer or any Restricted Subsidiary to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “— Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “— Consolidation, Merger and Sale of Assets;”
- (7) any sale, transfer or other disposition by the Parent Guarantor, the Issuer or any Restricted Subsidiary, including the sale or issuance by the Parent Guarantor, the Issuer or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Parent Guarantor, the Issuer or any Restricted Subsidiary; and
- (8) the transfer, dividend or distribution of (i) no more than 30% of the Common Stock of China XTD or a Subsidiary of China XTD to shareholders of the Parent Guarantor solely for the purposes of obtaining a Listing by Introduction of China XTD or such Subsidiary of China XTD, or (ii) no more than 10% of the Common Stock of China XTD or a Subsidiary of China XTD to shareholders of the Parent Guarantor solely for the purposes of satisfying any obligations to shareholders of the Parent Guarantor (including any assured entitlement obligations of the Parent Guarantor under Practice Note 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) in the context of a Listing by means of an initial public offering (which, for the avoidance of doubt, excludes a Listing by Introduction) of China XTD or such Subsidiary of China XTD, *provided* that in each case, after giving effect to such transfer, dividend or distribution, the China XTD Ownership Condition continues to be met.

“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.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Parent Guarantor to manage the business of the Parent Guarantor 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, and delivered to the Trustee.

“Brookfield Announcement” means the announcement made by the Parent Guarantor on October 31, 2013 disclosing, *inter alia*, the terms of the investment agreement for the Brookfield Investment.

“Brookfield Investment” means the investment by BSREP CXTD Holdings L.P. in (1) US\$ perpetual subordinated convertible securities of China XTDH in an aggregate principal amount of US\$500 million, (2) 415 million warrants to subscribe for ordinary shares in the capital of Shui On Land Limited and (3) an additional aggregate principal amount of up to US\$250 million of such perpetual convertible securities and up to an additional 27.35 million of such warrants.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Parent Guarantor or the Issuer with or into another Person or the merger or amalgamation of another Person with or into the Parent Guarantor or the Issuer, or the sale of all or substantially all the assets of the Parent Guarantor or the Issuer to another Person;
- (2) the Permitted Holders are the beneficial owners of less than 35.0% of the total voting power of the Voting Stock of the Parent Guarantor or the Issuer;

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- (3) 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 Issuer or the Parent Guarantor greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Parent Guarantor or the Issuer, as the case may be, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Parent Guarantor or the Issuer, as the case may be, then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Parent Guarantor or the Issuer.

“China XTD” means China Xintiandi Limited, a company incorporated under the laws of the Cayman Islands with limited liability.

“China XTDH” means China Xintiandi Holding Company Limited, a company incorporated under the laws of the Cayman Islands with limited liability.

“China XTD Group Company” means any of China XTD and any Subsidiary of China XTD from time to time, in each case for so long as it remains a Subsidiary of China XTD.

“China XTD Ownership Condition” means the Parent Guarantor, directly or indirectly, owns no less than 35% of the Voting Stock of China XTD or, in the context of a listing of a Subsidiary of China XTD, such Subsidiary, and will own not less than 35% of such Voting Stock as a result of the transaction being effected in connection with the circumstances that require the testing of the China XTD Ownership Condition and no “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is, or will become as a result of the transactions being effected in connection with the circumstances that require testing of the China XTD Ownership Condition, 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 China XTD or, in the context of a listing of a Subsidiary of China XTD, such Subsidiary greater than such total voting power held beneficially by the Parent Guarantor.

“Clearstream” means Clearstream Banking, société anonyme, Luxembourg.

“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 U.S. Treasury security having a maturity comparable to May 19, 2018 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 May 19, 2018.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Trustee, Reference Treasury Dealer Quotations for such redemption date.

“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 Parent Guarantor, the Issuer and the Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Parent Guarantor, the Issuer or any Restricted Subsidiary and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Parent Guarantor, the Issuer or any Restricted Subsidiary held by Persons other than the Parent Guarantor, the Issuer or any of the Issuer’s Wholly Owned Restricted Subsidiaries, except for dividends payable in the Parent Guarantor’s Capital Stock (other than Disqualified Stock) or paid to the Parent Guarantor, the Issuer or to a Wholly Owned Restricted Subsidiary of the Issuer.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated statement of profit or loss prepared in accordance with GAAP for such period of the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer 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 (x) Guaranteed by, or (y) secured by a Lien on any asset of, the Parent Guarantor, the Issuer or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees), *provided* that with respect to clause (y), for purposes of this calculation, the amount of interest taken into account shall be equal to (i) the interest accruing on the secured Indebtedness multiplied by (ii) the ratio of the Fair Market Value of the assets subject to such Lien to the aggregate principal amount of such Indebtedness, (7) any

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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 and, for the avoidance of doubt, (8) any distribution, when accrued, on any Indebtedness (including without limitation perpetual notes), whether or not accounted for as interest expense under GAAP.

“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 (and, in the case such Person is Shui On Land, including the Issuer) 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 the Issuer or 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 Parent Guarantor’s and the Issuer’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 Parent Guarantor, the Issuer 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 Parent Guarantor’s and the Issuer’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 Parent Guarantor, the Issuer or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person (other than the Issuer) accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Parent Guarantor, the Issuer or any Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (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 Parent Guarantor, the Issuer 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 Parent Guarantor or the Issuer realized on sales of Capital Stock of the Parent Guarantor, the Issuer 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 Parent Guarantor, the

Issuer and any Restricted Subsidiary, plus, to the extent not included, any Preferred Stock of the Parent Guarantor, 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 Parent Guarantor, the Issuer or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Parent Guarantor, the Issuer or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer 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.

“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.

“Dalian Tiandi Project” means the development project of the Issuer located in Dalian, the PRC conducted through a joint venture arrangement among the Issuer and other investors.

“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 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” 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 Issuer’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” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“EIT Law” means the Enterprise Income Tax Law promulgated and adopted on March 16, 2007 by the National People’s Congress of the PRC, which came into effect on January 1, 2008.

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“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, *provided* that such borrowings are not reflected on the consolidated balance sheet of the Issuer.

“Equity Offering” means any private placement or public offering of Common Stock (other than Disqualified Stock) of the Parent Guarantor to any Person other than a Subsidiary of the Parent Guarantor; *provided* that the aggregate gross cash proceeds received by the Parent Guarantor from such offering shall be no less than US\$20 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank S.A./N.V.

“Fair Market Value” means either (a) 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 *provided* that in making such determination in connection with an Asset Sale comprising the sale, transfer, or disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) to any China XTD Group Company of any SOL Commercial Property, the Board of Directors shall be entitled to take into account the value of the Parent Guarantor’s, the Issuer’s or any Restricted Subsidiaries’ shareholdings in the Capital Stock of China XTD and its Subsidiaries; or (b) in the case of an Asset Sale comprising the sale, transfer or disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) to any China XTD Group Company of any SOL Commercial Property, the market price quotation for such SOL Commercial Property obtained by China XTDH from a bona fide third party purchaser.

“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 Parent Guarantor (which the Parent Guarantor 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 Parent Guarantor, the Issuer or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem 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 Parent Guarantor, the Issuer 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 International Financial Reporting Standards promulgated by the International Accounting Standards Board (or any successor board or agency) as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“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.

“HKEX” means the Hong Kong Exchanges and Clearing Limited.

“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

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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;
- (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; and
- (10) any Preferred Stock issued (a) by such Person, if such Person is a Restricted Subsidiary, or (b) any Restricted Subsidiary of such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

For the avoidance of doubt, a mandatory put option granted to a Person that obligates the Parent Guarantor, the Issuer or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person shall be deemed to be “Indebtedness” unless such option may, at the option of the Parent Guarantor, be settled in Common Shares of the Parent Guarantor. For the avoidance of doubt, any such mandatory put option that allows settlement in Common Stock of the Parent Guarantor shall not be deemed Indebtedness solely because the Parent Guarantor has the option to cash settle such option and the obligation to pay cash resulting from an election by the Parent Guarantor to cash settle such an obligation shall not constitute Indebtedness to the extent that the payment thereof is made within 120 days of such election.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligation, Entrusted Loans, pre-sale receipts in advance from customers, performance obligation or similar obligations (and any Guarantee thereof) 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 as borrowings on the consolidated balance sheet of the Parent Guarantor (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (2)(e) under the “Limitation on Indebtedness and Preferred Stock” covenant, and (ii) equal to the net amount payable by such Person if such Hedging Obligation terminated at that time if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Parent Guarantor or the Issuer.

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” or “Limitation on Restricted Payments” covenants: (1) the Parent Guarantor or the Issuer, as the case may be, will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Parent Guarantor’s or the Issuer’s proportionate interest in the Fair Market Value of the assets (net of the Parent Guarantor’s or the Issuer’s proportionate interest in the liabilities owed to any Person other than the Parent Guarantor, the Issuer or a Restricted Subsidiary and that are not Guaranteed by the Parent Guarantor, the Issuer or a Restricted Subsidiary) of a Restricted Subsidiary that is designated as an Unrestricted Subsidiary at the time of such designation *provided* that with respect to any designation by the Parent Guarantor of any of the China XTD Group Companies (and or any of their respective Restricted Subsidiaries) as Unrestricted Subsidiaries, the amount of the Investment

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deemed to have been made by the Parent Guarantor shall only be equal to the Fair Market Value of such assets at the time of designation which are not SOL Commercial Properties or Reclassified Intra-Group Indebtedness (if any) 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, and (3) a Guarantee shall be valued as the amount of the obligation so guaranteed to the extent such obligation is outstanding and guaranteed.

“Investment Property” means any property that is owned and held by the Parent Guarantor, the Issuer or any Restricted Subsidiary for long-term rental yields or for capital appreciation or both, or any hotel owned by the Parent Guarantor, the Issuer or any Restricted Subsidiary from which the Parent Guarantor, the Issuer or any Restricted Subsidiary derives or expects to derive operating income.

“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” means, in respect of any Person, the admission to listing of all or any part of the ordinary share capital of such Person on the Stock Exchange of Hong Kong Limited or any other recognised international exchange.

“Listing by Introduction” means a Listing by introduction on the Stock Exchange of Hong Kong Limited or any other recognised international exchange in accordance with the applicable listing rules of such exchange.

“Measurement Date” means December 23, 2010.

“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 Parent Guarantor, the Issuer and the 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 Parent Guarantor, the Issuer or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Offer to Purchase” means an offer to purchase Notes by the Issuer or the Parent Guarantor from the Holders commenced by the Issuer or the Parent Guarantor, as applicable, mailing a notice by first class mail, postage prepaid, to the Trustee, the Principal Paying 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 expressed as a percentage of the principal amount of such Note, 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 Issuer or the Parent Guarantor, as applicable, 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 Principal 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 Principal 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\$150,000 or integral multiples of US\$1,000 in excess thereof.

On the Offer to Purchase Payment Date, the Issuer or the Parent Guarantor, as applicable, shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Principal 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 Issuer. The Principal 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

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purchased and each new Note issued shall be in a principal amount of US\$150,000 or integral multiples of US\$1,000 in excess thereof. The Issuer or the Parent Guarantor, as applicable, will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Issuer or the Parent Guarantor, as applicable, 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 Issuer or the Parent Guarantor is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Parent Guarantor, the Issuer and the Issuer's Subsidiaries which the Issuer or the Parent Guarantor, as applicable, in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Issuer or the Parent Guarantor, as applicable, to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Parent Guarantor or, in the case of the Issuer, one of the directors or officers of the Issuer, as the case may be.

"Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee, in a form reasonably satisfactory to the Trustee. The counsel may be an employee of or counsel to the Issuer or the Parent Guarantor.

"Original Issue Date" means the date on which the Notes are originally issued under the Indenture.

"Permitted Businesses" means any business which is the same as or related, ancillary or complementary to any of the businesses of the Parent Guarantor, the Issuer and the Restricted Subsidiaries on the Original Issue Date.

"Permitted Holders" means any or all of the following:

- (1) Mr. Vincent H. S. Lo;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) 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 owned 80% by Persons specified in clauses (1) and (2).

"Permitted Investment" means:

- (1) any Investment in the Parent Guarantor, the Issuer or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment or immediately thereafter, 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 Parent Guarantor, the Issuer or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) Temporary Cash Investments;

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- (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 Parent Guarantor, the Issuer or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
 - (7) receivables owing to the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer 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 Parent Guarantor’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 Parent Guarantor, the Issuer or any Restricted Subsidiary and prepayments made in connection with the direct or indirect acquisition of real property or land use rights by the Parent Guarantor, the Issuer or any Restricted Subsidiary, in each case in the ordinary course of business;

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- (16) any Investment by the Parent Guarantor, the Issuer or any Restricted Subsidiary in any Person (other than a Restricted Subsidiary) primarily engaged in a Permitted Business, of which 15% or more of the Capital Stock and the Voting Stock is, or immediately following such Investment will be, owned, directly or indirectly, by the Parent Guarantor, the Issuer or any Restricted Subsidiary (such Person, an “Associate”), *provided* that:
- (i) the aggregate of (x) all Investments made under this clause (16) since the Original Issue Date and (y) the aggregate of all payments made pursuant to clause (8) of the second paragraph of the covenant described under “—Limitation on Restricted Payments” since the Original Issue Date shall not exceed in aggregate an amount equal to the sum of (x) 20% of Total Assets and (y) the aggregate amount of consideration received as a result of any disposal of assets or other interests in the Dalian Tiandi Project. Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (16) since the Original Issue Date resulting from:
 - (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause, in each case to the Issuer or any Restricted Subsidiary or repayments of loans or advances, dividends or other distributions (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),
 - (B) the unconditional release of a Guarantee provided by the Parent Guarantor, the Issuer or a Restricted Subsidiary after the Original Issue Date under this clause of an obligation of any such Person,
 - (C) to the extent that an Investment made after the Original Issue Date under this clause (16) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or
 - (D) such Associate becoming a Restricted Subsidiary (whereupon all Investments (other than Permitted Investments) made by the Issuer or any Restricted Subsidiary in such Associate since the Original Issue Date shall be deemed to have been made pursuant to clause (1) of this “Permitted Investment” definition);not to exceed, in each case, the amount of Investments made by the Parent Guarantor, the Issuer or a Restricted Subsidiary after the Original Issue Date in any such Person pursuant to this clause (16);
 - (ii) no Default has occurred and is continuing or would occur as a result of such Investment;
- (17) Guarantees Incurred pursuant to clause (r) of the second paragraph of the covenant described under the caption “—Limitation on Indebtedness and Preferred Stock” (or refinancings thereof);
- (18) any Investment in Capital Stock of China XTDH or other securities issued by China XTDH made by the Parent Guarantor, the Issuer or any Restricted Subsidiary to the extent that consideration for such Investment consisted of Common Stock of the Parent Guarantor; and
- (19) Investments in Capital Stock of China XTD or any of its Subsidiaries made by the Parent Guarantor, the Issuer or any Restricted Subsidiary where such Capital Stock is being issued or acquired in consideration for the acquisition by a China XTD Group Company of an SOL Commercial Property or where the proceeds from such issuance or acquisition of Capital Stock are applied in payment for the acquisition by a China XTD Group Company of an SOL Commercial Property.

“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, sales and dispositions of assets, 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 Parent Guarantor, the Issuer and the 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 Parent Guarantor, the Issuer or any Restricted Subsidiary 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 Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Parent Guarantor, the Issuer 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 (e) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (11) Liens existing on the Original Issue Date;

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- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (d) 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 Issuer or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) any interest or title of a lessor in the property subject to any operating lease;
- (14) 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 Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (15) Liens (including extensions and renewals thereof) upon assets (including Capital Stock), real or personal property (including land use rights) or equipment owned by a Restricted Subsidiary created 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)(f) of the covenant under the caption entitled “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such assets, property or equipment and (b) the aggregate book value of assets, property and equipment (as reflected in the most recent available consolidated financial statements of the Parent Guarantor (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 purchase price or cost of such assets, property or equipment) subject to Liens incurred pursuant to this clause (15) does not exceed 200% of the aggregate principal amount of Indebtedness secured by such Liens;
- (16) 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 Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (17) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (18) Liens on deposits made in order to secure the performance of the Parent Guarantor, the Issuer or any Restricted Subsidiary in connection with the acquisition of real property or land use rights by the Parent Guarantor, the Issuer or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (19) Liens incurred or deposits made to secure Entrusted Loans;
- (20) Liens securing Indebtedness under any Pre-Registration Mortgage Guarantee by the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (21) Liens on Investment Properties or the assets or the Capital Stock of a Restricted Subsidiary directly or indirectly owning such Investment Properties securing Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary permitted to be Incurred under clause (2)(n) of the covenant described under the caption entitled “— Limitation on Indebtedness and Preferred Stock”;

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- (22) Any renewal or extension of the Liens described in the foregoing clauses which is limited to the original property or assets covered thereby;
- (23) Liens securing Indebtedness incurred pursuant to clause (r) of the second paragraph of the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock” (or refinancings thereof); and
- (24) any Liens securing Indebtedness or other obligations related to the Dalian Tiandi Project of the Parent Guarantor or the Issuer in an aggregate amount not to exceed RMB1.0 billion.

“Permitted Subsidiary Indebtedness” means Indebtedness (other than Public Indebtedness, but including Acquired Indebtedness) of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole; *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 any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (c), and (e) 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.

“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.

“PRC” means the People’s Republic of China, excluding Hong Kong Special Administrative Region, Macau and Taiwan.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Issuer or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer 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.

“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.

“Reclassified Intra-Group Indebtedness” means (1) loans owed by the Parent Guarantor, the Issuer or a Restricted Subsidiary to a Restricted Subsidiary (the “Lender Subsidiary”) permitted to be incurred

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pursuant to clause (2)(c) of the covenant described under “—Limitation on Indebtedness and Preferred Stock” which upon designation of the Lender Subsidiary as an Unrestricted Subsidiary will cease to be permitted under clause (2)(c) of the covenant described under “—Limitation on Indebtedness and Preferred Stock” and (2) loans owed by the Parent Guarantor, the Issuer or a Restricted Subsidiary to China XTDH or a Subsidiary of China XTDH which are outstanding at the Original Issue Date.

“Reference Treasury Dealers” 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 Issuer in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

“Renminbi” or “RMB” means yuan, the lawful currency of the PRC.

“Replacement Assets” means, with respect to Asset Sales, (1) properties or assets that replace the properties and assets that were the subject of such Asset Sale or (2) property or assets (other than current assets) of a nature or type that are used in a Permitted Business and shall include (i) Capital Stock of any Person holding such property or assets, which is primarily engaged in a Permitted Business and will upon the acquisition by the Issuer or any of its Restricted Subsidiaries of such Capital Stock, remain or become a Restricted Subsidiary and (ii), solely with respect to an Asset Sale consisting of a sale of shares of Capital Stock of a Person other than a direct or indirect Subsidiary of the Parent Guarantor, shares of Capital Stock constituting a Permitted Investments under clause (16) of the definition thereof.

“Restricted Subsidiary” means any Subsidiary of the Parent Guarantor other than (x) an Unrestricted Subsidiary and (y) the Issuer.

“S&P” means Standard & Poor’s Ratings Services and its affiliates.

“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 Parent Guarantor, the Issuer or any Restricted Subsidiary transfers such property to another Person, which is not the Parent Guarantor, the Issuer or any Restricted Subsidiary, and the Parent Guarantor, the Issuer or any Restricted Subsidiary leases it from such Person.

“Senior Indebtedness” of the Parent Guarantor or the Issuer, as the case may be, means all Indebtedness of the Parent Guarantor or the Issuer, 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 Issuer, the Notes, or (b) in respect of the Parent Guarantor, the Parent Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Parent Guarantor, the Issuer or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“SOL Commercial Property” means any assets appearing on the consolidated balance sheet of the Parent Guarantor as “Investment properties” and, to the extent comprised of commercial real estate, any assets appearing in the consolidated balance sheet of the Parent Guarantor as “Property, plant and

equipment” in each case together with any other assets connected or ancillary to such “Investment properties” and “Property, plant and equipment” and the Capital Stock of any Person substantially all of the assets of which are comprised of such “Investment properties” or “Property, plant and equipment”, or connected or ancillary assets and related working capital.

“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 Parent Guarantor or the Issuer which is contractually subordinated or junior in right of payment to the Notes or the Parent Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person; *provided* that any corporation, association or other business entity that is not consolidated with such Person in accordance with GAAP will not be Subsidiary.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, in each case maturing within one year, which in the case of obligations of, or obligations Guaranteed by, any state of the European Economic Area, shall be rated at least “A” by S&P or Moody’s;
- (2) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Parent Guarantor or the Issuer) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;

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- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Commercial Bank of China, Hongkong and Shanghai Banking Corporation and Bank of Shanghai, (ii) any other bank, trust company or other financial institution 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 described in clause (i) of this paragraph or (iii) any other bank, trust company or other financial institution organized under the laws of the PRC or Hong Kong; *provided* that, in the case of clause (iii), such deposits do not exceed US\$10.0 million (or the Dollar Equivalent thereof) with any single bank or US\$30.0 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 Parent Guarantor, the Issuer and the 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 Parent Guarantor (which the Parent Guarantor shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(f) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Parent Guarantor, the Issuer or any Restricted Subsidiary to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Unrestricted Subsidiary” means (1) subject to any designation under the caption “Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries,” each of China XTDH and its Subsidiaries; (2) any other Subsidiary of the Issuer 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 (3) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer

thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries.

“Wuhan Tiandi Project” means the development project of the Issuer (conducted through its Subsidiaries and associates) located in Wuhan, the PRC.

DESCRIPTION OF THE 2020 NOTES

For purposes of this “Description of the Notes,” (1) the term “Issuer” refers only to Shui On Development (Holding) Limited, and any successor obligor on the Notes, and not to any of its subsidiaries, (2) the term “Notes” refers to the 2020 Notes issued by the Issuer and (3) the term “Parent Guarantor” refers only to Shui On Land Limited, which guarantees the Notes (such guarantee is referred to as the “Parent Guarantee”) and any successor obligor on such guarantee, and not to any of its subsidiaries.

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of May 19, 2014 among the Issuer, the Parent Guarantor, as guarantor, and DB Trustees (Hong Kong) Limited, as trustee (the “Trustee”). The Notes will be issued under the same Indenture and form a single series with the corresponding series of Exchange Notes.

The following is a summary of certain provisions of the Indenture, the Notes and the Parent Guarantee. 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 and the Parent Guarantee. 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 DB Trustees (Hong Kong) Limited, Level 52 International Commerce Center, 1 Austin Road West, Kowloon, Hong Kong.

Brief Description of The Notes

The Notes are:

- general obligations of the Issuer;
- senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Issuer (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Parent Guarantor on a senior basis, subject to the limitations described below under the caption “— The Parent Guarantee” and in “Risk Factors — Risks Relating to the Notes — The Parent Guarantee and any guarantee by our subsidiaries of the Notes after the issue date may be challenged under applicable insolvency or fraudulent transfer laws which may affect the enforceability of such guarantees”;
- effectively subordinated to the secured obligations (if any) of the Issuer and the Parent Guarantor, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Subsidiaries (as defined below) of the Issuer.

The Notes will mature on May 19, 2020 unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 9.750% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on May 19 and November 19 of each year (each, an “Interest Payment Date”), commencing November 19, 2014. Interest on the Notes will be paid to Holders

of record at the close of business on May 4 and November 4 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Principal Paying Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due and no interest on the Notes shall accrue for the period after such date.

The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$150,000 of principal amount 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 Issuer 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 Issuer at the office or agency of the Issuer maintained for that purpose (which initially will be the corporate trust administration office of the Principal Paying Agent of the Notes, currently located at Level 52 International Commerce Center, 1 Austin Road West, Kowloon, Hong Kong) and the Notes may be surrendered for registration of transfer or exchange at such office or agency; *provided, however*, that, at the option of the Issuer, payment of interest may instead be made by check mailed to the address of the Holders as such address appears in the Note register maintained by the Registrar. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

As of the date of the Indenture, all of the Parent Guarantor’s Subsidiaries other than the Issuer, China XTDH and each of its Subsidiaries will be “Restricted Subsidiaries.” Under the circumstances described below under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries,” the Parent Guarantor will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Parent Guarantor’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture.

The Parent Guarantee

The Parent Guarantor is a holding company that does not have significant operations other than its ownership of Capital Stock of the Issuer. The Issuer does not have significant operations other than financing activities and its ownership of Capital Stock of its Subsidiaries.

As of December 31, 2013, the Parent Guarantor and its consolidated subsidiaries had total consolidated bank and other borrowings of approximately RMB24,366 million (US\$4,025 million), of which approximately RMB21,857 million (US\$3,611 million) was secured, capital commitments of approximately RMB12,219 million (US\$2,018 million) and contingent liabilities of approximately RMB669 million (US\$111 million).

DESCRIPTION OF THE 2020 NOTES

As of December 31, 2013, the Subsidiaries of the Issuer had total bank and other borrowings of approximately RMB21,543 million (US\$3,559 million), capital commitments of approximately RMB12,219 million (US\$2,018 million) and contingent liabilities of RMB324 million (US\$54 million).

The Parent Guarantee:

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

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, the Parent Guarantor (and, if required by the terms of the Notes and the Indenture, any Restricted Subsidiary (if any) Guaranteeing the Notes after the Original Issue Date) 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 Parent Guarantor (and, if required by the terms of the Notes and the Indenture, any Restricted Subsidiary (if any) Guaranteeing the Notes after the Original Issue Date) will (1) agree that its obligations under such Guarantee will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive its right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Issuer prior to exercising its rights under such Guarantee. 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 Parent Guarantee (or any Guarantee of the Notes by a Restricted Subsidiary (if any)) will be reinstated with respect to such payment as though such payment had not been made. All payments under the Parent Guarantee (or any Guarantee of the Notes by a Restricted Subsidiary (if any)) are required to be made in U.S. dollars.

See “Risk Factors — Risks Relating to the Notes.”

Release of the Parent Guarantee

The Parent Guarantee may be released in certain circumstances, including:

- upon repayment in full of the Notes; and
- upon a defeasance as described under “— Defeasance — Defeasance and Discharge.”

No release of the Parent Guarantor from its Parent Guarantee shall be effective against the Trustee or the Holders until the Issuer has delivered to the Trustee an Officer’s Certificate stating that all requirements relating to such release have been complied with and such release is authorized and permitted by the terms of the Indenture.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Issuer 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 Parent Guarantee) in all respects (or in all respects except for the issue date, issue price and the date and/or amount of the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock” covenant described below.

Optional Redemption

At any time and from time to time on or after May 19, 2017, the Issuer may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on May 19 of each of the years indicated below.

Period	Redemption Price
2017	104.875%
2018	102.438%
2019 and thereafter	101.219%

At any time prior to May 19, 2017, the Issuer may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to May 19, 2017 the Issuer may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Parent Guarantor in an Equity Offering at a redemption price of 109.750% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Issuer will give not less than 30 days’ nor more than 60 days’ notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis or by such method as the Trustee deems fair and appropriate.

A Note of US\$150,000 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

Not later than 30 days following a Change of Control, the Issuer or the Parent Guarantor 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 Issuer and the Parent Guarantor have agreed in the Indenture that they 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 Issuer and the Parent Guarantor, it is important to note that if the Issuer or the Parent Guarantor 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, the Issuer and the Parent Guarantor, as applicable, would continue to be prohibited from purchasing the Notes. In that case, the failure of the Issuer and the Parent Guarantor to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control under the Notes may also constitute a default or event of default under certain current and future debt instruments of the Parent Guarantor, the Issuer and the Issuer’s Subsidiaries. Such debt instruments may also (1) prohibit the Issuer or the Parent Guarantor from purchasing Notes in the event of a Change of Control; (2) provide that a Change of Control is a default; or (3) require repurchase of the relevant debt upon a Change of Control.

Moreover, the exercise by the Holders of their right to require the Issuer and the Parent Guarantor to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control itself does not, due to the financial effect of the purchase on the Issuer or the Parent Guarantor. The ability of the Issuer or the Parent Guarantor to pay cash to the Holders following the occurrence of a Change of Control may be limited by its then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors — Risks Relating to the Notes — The Issuer and the Parent Guarantor may be unable to repurchase the Notes upon a Change of Control.”

The phrase “all or substantially all”, as used with respect to the assets of the Issuer and the Parent Guarantor in the definition of “Change of Control,” will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Issuer or the Parent Guarantor has occurred.

Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Issuer or the Parent Guarantor purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. The Trustee shall not be required to take any steps to ascertain whether a Change of Control has occurred or may occur, and shall be entitled to assume that no such event has occurred until it has received written notice to the contrary from the Issuer or the Parent Guarantor. The Trustee shall not be required to take any steps to ascertain whether the condition for the exercise of the rights herein has occurred. The Trustee shall not be responsible for determining or verifying whether a Note is to be accepted for repurchase

and will not be responsible to the Holders for any loss arising from any failure by it to do so. The Trustee and the Principal Paying Agent shall not be under any duty to determine, calculate or verify the repurchase amount payable hereunder and will not be responsible to the Holders for any loss arising from any failure by it to do so.

No Mandatory Redemption Or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes. However, under certain circumstances (including as described under “Repurchase of Notes Upon a Change of Control”) the Issuer may be required to repurchase Notes. The Issuer and the Parent Guarantor may also at any time and from time to time purchase Notes in the open market or otherwise.

Additional Amounts

All payments of principal of, premium (if any) and interest on the Notes and all payments under the Parent Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Issuer, the Parent Guarantor or a Surviving Person (as defined under the caption “— Consolidation, Merger and Sale of Assets”) is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a “Relevant Taxing Jurisdiction”), or the jurisdiction through which payments are made (each, as applicable and with each Relevant Taxing Jurisdiction, 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 Issuer, the Parent Guarantor or a Surviving Person, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction, other than merely holding such Note or the receipt of payments thereunder or under the Parent 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 Issuer, the Parent Guarantor or a Surviving Person addressed to the Holder to provide information concerning such Holder’s or beneficial owner’s nationality, residence,

DESCRIPTION OF THE 2020 NOTES

identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or

- (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
 - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any withholding or deduction that is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) or (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a partner 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 the Parent 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 Issuer or a Surviving Person with respect to the Issuer, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders (and notice, reasonably in advance of such notice to the Holders, to the Trustee and the Principal Paying Agent), which notice shall be irrevocable, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Issuer or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective (i) except as provided in (ii) below, on or after the Original Issue Date, or (ii) with respect to any Surviving Person (other than a Surviving Person tax resident in the jurisdiction of tax residence of the Issuer or the Parent Guarantor, as the case may be), on or after the date such Surviving Person becomes a Surviving Person, with respect to any payment

due or to become due under the Notes (including the Parent Guarantee) or the Indenture, the Issuer, the Parent Guarantor or a Surviving Person, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Issuer, the Parent Guarantor or a Surviving Person, 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 Issuer, the Parent Guarantor or a Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Notwithstanding anything to the contrary herein, the Issuer or a Surviving Person may not redeem the Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Issuer, the Parent Guarantor or a Surviving Person being considered a PRC tax resident under the EIT Law if payments of dividends or interest from the Issuer's, or Surviving Person's (with respect to the Issuer), PRC Subsidiaries to the Issuer or Surviving Person (with respect to the Issuer) are then exempt from PRC withholding tax.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer, the Parent Guarantor or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that a 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 Issuer, the Parent Guarantor or such Surviving Person, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from a change or amendment referred to in this section entitled "Redemption for Taxation Reasons."

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) Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), *provided* that each of the Parent Guarantor and the Issuer 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 or Permitted Subsidiary Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.0 to 1.0.

DESCRIPTION OF THE 2020 NOTES

- (2) Notwithstanding the foregoing, each of the Parent Guarantor and the Issuer 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 the Parent Guarantee;
 - (b) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (c); *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;
 - (c) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary owed to the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (c) and (ii) with respect to any Indebtedness Incurred after the Original Issue Date, if the Parent Guarantor or the Issuer is the obligor on such Indebtedness (and the Issuer or Parent Guarantor is not the obligee), such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Notes, in the case of the Issuer, and the Parent Guarantee, in the case of the Parent Guarantor;
 - (d) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness repaid substantially concurrently with but in any case before the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (f), (m), (n), (q) or (r) 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 the Parent Guarantee shall only be permitted under this clause (d) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or the Parent Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or the Parent Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or the Parent Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or the Parent Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or the Parent 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 Issuer or the Parent Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary;

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- (e) Indebtedness Incurred by the Parent Guarantor, the Issuer or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Parent Guarantor, the Issuer or any Restricted Subsidiary from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (f) Indebtedness Incurred by the Parent Guarantor, the Issuer 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 Issuer 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, (y) all or any part of the purchase price or the cost of development, construction or improvement 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 Issuer or a Restricted Subsidiary in the Permitted Business, or (z) the Wuhan Tiandi Project; *provided* that (i) in the case of each of clauses (x) and (y) of this clause (f), (A) the net proceeds of such Indebtedness shall not exceed such purchase price or cost and (B) unless such Incurrence is as a result of a Restricted Subsidiary ceasing to be a Restricted Subsidiary or as a result of a transfer of Indebtedness, in which case this sub-clause (B) shall not apply, such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (ii) in the case of each of clauses (x), (y) and (z) of this clause (f), on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (aa) the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (f) (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) plus (bb) the sum of the aggregate amount outstanding of all Indebtedness permitted under clauses (n) or (r) below (together with refinancings thereof, but excluding any Guarantee Incurred under such clause (n) or (r) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;
- (g) Indebtedness Incurred by the Parent Guarantor, the Issuer 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);
- (h) Indebtedness Incurred by the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or such Restricted Subsidiary of a demand for reimbursement;
- (i) 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 Parent Guarantor, the Issuer 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;
- (j) 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;
 - (k) Guarantees by the Parent Guarantor, the Issuer or any Restricted Subsidiary of Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant; *provided* that, in the case of a Guarantee by a Restricted Subsidiary of Indebtedness of the Parent Guarantor or the Issuer, such Guarantee shall comply with the “—Limitations on Issuances of Guarantees by Restricted Subsidiaries” covenant;
 - (l) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary with a maturity of one year or less used by the Parent Guarantor, the Issuer or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (l) at any time outstanding does not exceed US\$25.0 million (or the Dollar Equivalent thereof);
 - (m) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$75.0 million (or the Dollar Equivalent thereof);
 - (n) Indebtedness Incurred by any Restricted Subsidiary which is secured by Investment Properties or by the assets or the Capital Stock of a Restricted Subsidiary directly or indirectly owning such Investment Properties; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, (i) the aggregate principal amount outstanding of all such Indebtedness permitted under this clause (n) (together with refinancings thereof, but excluding any Guarantee thereof to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed 75% of the total Fair Market Value of such Investment Properties and (ii) the sum of (x) the aggregate amount outstanding of all Indebtedness permitted under this clause (n) (together with refinancings thereof, but excluding any Guarantee Incurred under this clause (n) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (y) the aggregate amount outstanding of all Indebtedness permitted under clauses (f) above or (r) below (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under such clause (f) and any Guarantee Incurred under such clause (r) below to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35 % of Total Assets;
 - (o) Pre-Registration Mortgage Guarantees by the Parent Guarantor, the Issuer or any Restricted Subsidiary;
 - (p) Guarantees by the Parent Guarantor or the Issuer of Indebtedness or other obligations related to the Dalian Tiandi Project in an aggregate amount not to exceed RMB1.0 billion;
 - (q) Indebtedness of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with

(including pursuant to any acquisition of assets and assumption of related liabilities) the Parent Guarantor, the Issuer or any Restricted Subsidiary (other than Indebtedness incurred to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Parent Guarantor, the Issuer or a Restricted Subsidiary); *provided, however*, with respect to this clause (q), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred (x) the Parent Guarantor or the Issuer would have been able to incur US\$1.00 of additional Indebtedness pursuant to the proviso in the first paragraph of part (1) of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock” after giving pro forma effect to the incurrence of such Indebtedness pursuant to this clause (q) or (y) the Fixed Charge Coverage Ratio would not be lower than it was immediately prior to giving pro forma effect to the incurrence of such Indebtedness pursuant to this clause (q);

- (r) Indebtedness Incurred by the Parent Guarantor, the Issuer or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) and/or a Lien on the assets of the Parent Guarantor, the Issuer or such Restricted Subsidiary, *provided* that on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (x) the aggregate principal amount outstanding of all Indebtedness permitted under this clause (r) (together with refinancings thereof, but excluding any Guarantee Incurred under this clause (r) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (y) the aggregate principal amount outstanding of all Indebtedness permitted under clauses (f) and (n) above (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under such clause (f) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets; and
 - (s) Indebtedness arising in connection with the Brookfield Investment in an aggregate amount not to exceed US\$30,000,000 (or the Dollar Equivalent thereof).
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (1), the Issuer or the Parent Guarantor, in its sole discretion, shall classify or reclassify, or later divide, classify or reclassify, such item of Indebtedness (or any portion thereof) in any manner that complies with this covenant.

If the Issuer or the Parent Guarantor reclassifies an item of Indebtedness (or any portion thereof) such reclassified Indebtedness shall be deemed to have been incurred for the purposes of the satisfaction of the criteria for the types of Indebtedness described above on the date of such reclassification.

- (4) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such

Indebtedness being refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

Each of the Parent Guarantor and the Issuer 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 Parent Guarantor’s, the Issuer’s or any Restricted Subsidiary’s Capital Stock (other than dividends or distributions payable or paid in shares of the Parent Guarantor, the Issuer’s or any Restricted Subsidiary’s 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 Parent Guarantor, the Issuer or any of the Issuer’s Wholly Owned Restricted Subsidiaries;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Parent Guarantor, the Issuer or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Issuer held by any Persons other than the Parent Guarantor, the Issuer or any of the Issuer’s Wholly Owned Restricted Subsidiaries;
- (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 the Parent Guarantee (excluding any intercompany Indebtedness between or among the Parent Guarantor, the Issuer and any of the Issuer’s Wholly Owned Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Issuer could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock;” or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Parent Guarantor, the Issuer and any Restricted Subsidiary after the Measurement Date, shall exceed the sum of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Parent Guarantor (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 2013 Notes were originally issued and

ending on the last day of the Parent Guarantor's most recently ended semi-annual period for which consolidated financial statements of the Parent Guarantor (which the Parent Guarantor 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 Parent Guarantor after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Parent Guarantor, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Parent Guarantor or the Issuer into Capital Stock (other than Disqualified Stock) of the Parent Guarantor, or (B) the exercise by a Person who is not a Subsidiary of the Parent Guarantor of any options, warrants or other rights to acquire Capital Stock of the Parent Guarantor (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 Parent Guarantor or the Issuer; plus
- (iii) the amount by which Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary is reduced on the Parent Guarantor's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Parent Guarantor) subsequent to the Measurement Date of any Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Parent Guarantor (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Parent Guarantor upon such conversion or exchange); plus
- (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Parent Guarantor, the Issuer or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (B) the unconditional release of a Guarantee provided by the Parent Guarantor, the Issuer or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Parent Guarantor, the Issuer or a Restricted Subsidiary after the Measurement Date in any such Person; plus
- (v) US\$25.0 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 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

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- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Parent Guarantor or the Issuer with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness or the redemption, repurchase, defeasance or other acquisition or retirement for value of any Reclassified Intra-Group Indebtedness which is subordinated in right of payment to the Notes in accordance with clause (c)(ii) of the second paragraph of the covenant described under the caption “—Limitation on Indebtedness and Preferred Stock”;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Parent Guarantor or the Issuer (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Parent Guarantor) of, shares of the Capital Stock (other than Disqualified Stock) of the Parent Guarantor or the Issuer (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Parent Guarantor or the Issuer 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 Parent Guarantor) of, shares of Capital Stock (other than Disqualified Stock) of the Parent Guarantor or the Issuer (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);
- (5) the payment of any dividends or distributions declared, paid or made by the Issuer or a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Parent Guarantor, to all holders of any class of Capital Stock of the Issuer or such Restricted Subsidiary, as the case may be, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Parent Guarantor;
- (6) the purchase by the Parent Guarantor, the Issuer or a Restricted Subsidiary of Capital Stock in any other Restricted Subsidiary pursuant to an agreement entered into by the Parent Guarantor, the Issuer or such Restricted Subsidiary with a third party that is not a Person described in clause (x) or (y) of the first paragraph of the covenant under the caption “—Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such Person being an officer, director or shareholder of a Restricted Subsidiary); *provided* that the purchase price of such Capital Stock is less than or equal to the Fair Market Value of such Capital Stock (determined by multiplying the Fair Market Value of such Restricted Subsidiary by the percentage that such Capital Stock represents in the total Capital Stock of such Restricted Subsidiary);
- (7) the transfer, dividend or distribution of (i) no more than 30% of the Common Stock of China XTD or a Subsidiary of China XTD to Shareholders of the Parent Guarantor solely for the purposes of obtaining a Listing by Introduction of China XTD or such Subsidiary of China XTD or (ii) no more than 10% of the Common Stock of China XTD or a Subsidiary of China XTD to shareholders of the Parent Guarantor solely for the purposes of satisfying any obligations to shareholders of the Parent Guarantor (including any assured entitlement obligations of the Parent Guarantor under Practice Note 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) in the context of a Listing by means of an initial public offering (which, for the avoidance of doubt, excludes a Listing by Introduction) of China XTD or such Subsidiary of China XTD, *provided* that in each case, after giving effect to such transfer, dividend or distribution, the China XTD Ownership Condition continues to be met;

- (8) the payment of any cash settlement amount by the Parent Guarantor, the Issuer or any Restricted Subsidiary in respect of any warrant or option described in the Brookfield Announcement granted in connection with the Brookfield Investment, *provided* that such amount is taken into account in the calculation under clause (16) of the definition of Permitted Investment; or
- (9) the conversion or exchange into equity or other securities issued by the relevant investee of any Investment, that at the time the original Investment was made, was not prohibited by the terms of the Indenture,

provided that, in the case of clause (2), (3), (4), (6), (7) or (8) 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) 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.

Clause (b) of the first paragraph of this “— Limitation on Restricted Payments” covenant does not have to be satisfied with respect to any Restricted Payment consisting solely of (i) the declaration or payment of dividends on the Common Stock of the Parent Guarantor or (ii) the redemption, repurchase or other acquisition of shares of Common Stock of the Parent Guarantor as permitted under any general mandate approved by shareholders of the Parent Guarantor at the relevant annual general meeting, in an aggregate amount not to exceed, with respect to any Two Semi-Annual Period, together with any other such dividend declared or paid or redemption, repurchase or other acquisition of shares of Common Stock with respect to the same Two Semi-Annual Period, 20.0% of the consolidated “profit for the year” of the Parent Guarantor calculated in accordance with GAAP for such Two Semi-Annual Period.

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 Parent Guarantor, the Issuer 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. Other than in respect of Restricted Payments consisting of Investments in a China XTD Group Company, the Board of Directors’ determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payment set forth in clause (7) above), the Parent Guarantor 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.

For any determination or calculation under this “— Limitation on Restricted Payments” covenant and the definitions related to Restricted Payments made and Consolidated Net Income and Net Sales Proceeds received prior to the Original Issue Date, such determination or calculation shall be made on the basis that China XTDH and its Subsidiaries were Restricted Subsidiaries at all times prior to January 23, 2014 and that accordingly, for the avoidance of doubt, such determinations and calculations for any such period prior to the Original Issue Date shall be made on a basis consistent with any such equivalent determination or calculation made for the purposes of the 2015 Notes.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Parent Guarantor, the Issuer or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Parent Guarantor, the Issuer or any other Restricted Subsidiary;
 - (c) make loans or advances to the Parent Guarantor, the Issuer or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Parent Guarantor, the Issuer 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 Parent Guarantee, the Indenture, any extensions, refinancings, renewals or replacements of any of the foregoing agreements and any subsequent 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;
 - (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 Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Parent Guarantor, the Issuer or any Restricted Subsidiary in any manner material to the Parent Guarantor, the Issuer or any Restricted Subsidiary;

- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness of the type described under clause (2)(f), (n), (q) or (r) or permitted under clause (2)(l) or 2(m) of the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Issuer to make required payment on the Notes and, with respect to Indebtedness of the type described in clause 2(f), (n), (q) or (r) or permitted under clause 2(m), 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; or
- (g) existing in customary provisions in joint venture agreements, other agreements in relation to a joint venture or establishing a joint venture and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to or subject of such joint venture or proposed joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type or an agreement in relation to a joint venture or establishing a joint venture and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Issuer to make the required payments on the Notes, or (y) the Parent Guarantor to make required payments under the Parent Guarantee.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

Each of the Parent Guarantor and the Issuer 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 Parent Guarantor, the Issuer or any of the Issuer’s Wholly Owned Restricted Subsidiaries;
- (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 Parent Guarantor, the Issuer or any of the Issuer’s Wholly Owned Restricted Subsidiaries;
- (3) for the sale of shares of all the Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the “— Limitation on Asset Sales” covenant;
- (4) for the issuance or sale of shares of Capital Stock of Restricted Subsidiaries primarily engaged in the Wuhan Tiandi Project; *provided* that the Parent Guarantor, the Issuer or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the “— Limitation on Asset Sales” covenant; or

- (5) for 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 Parent Guarantor, the Issuer 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

Each of the Parent Guarantor and the Issuer will not permit any Restricted Subsidiary, directly or indirectly, to Guarantee any Indebtedness (“Guaranteed Indebtedness”) of the Parent Guarantor or the Issuer, unless (1) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Guarantee of payment of the Notes by such Restricted Subsidiary and (2) 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 Parent Guarantor, the Issuer or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Guarantee of the Notes until the Notes have been paid in full.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or the Parent Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Notes or the Parent Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes or the Parent Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Parent Guarantee of the Notes, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Parent Guarantee.

Limitation on Transactions with Shareholders and Affiliates

Each of the Parent Guarantor and the Issuer 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 Parent Guarantor or (y) any Affiliate of the Parent Guarantor or the Issuer (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Parent Guarantor or the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Parent Guarantor, the Issuer or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Parent Guarantor or the Issuer; and
- (2) the Parent Guarantor 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\$15.0 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 Parent Guarantor, the Issuer or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees to directors of the Parent Guarantor or the Issuer who are not employees of the Parent Guarantor or the Issuer;
- (2) transactions between or among the Parent Guarantor, the Issuer and any of the Issuer's Wholly Owned Restricted Subsidiaries or between or among such Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clause (1) or (2) of the first paragraph of the covenant described above under the caption "— Limitation on Restricted Payments" if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Parent Guarantor;
- (5) the payment of compensation to employees, officers, directors and other designated persons pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme; and
- (6) the payment of compensation (including cash bonuses) to executive directors of the Parent Guarantor or the Issuer in their capacity as employees of the Parent Guarantor or the Issuer.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the "Limitation on Restricted Payments" covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Parent Guarantor, the Issuer and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among any of the Parent Guarantor, the Issuer or any of the Issuer's Wholly Owned Restricted Subsidiaries and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary of the Issuer or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries of the Issuer; *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. In addition, provided that the China XTD Ownership Condition is met, the requirements of clause (2)(b) of the first paragraph of this covenant shall not apply to transactions or any series of transactions between or among the Parent Guarantor, the Issuer or any Restricted Subsidiary on the one hand and any China XTD Group Company on the other hand or between or among any of the China XTD Group Companies.

Limitation on Liens

Each of the Parent Guarantor and the Issuer 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, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that each of the Parent Guarantor and the Issuer may enter into a Sale and Leaseback Transaction if:

- (1) the Parent Guarantor or the Issuer, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the first paragraph of 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 Parent Guarantor or the Issuer, as the case may be, applies the proceeds of such transaction in compliance with, the covenant described below under the caption “— Limitation on Asset Sales.”

Limitation on Asset Sales

Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale other than an Asset Sale comprising the sale, transfer or disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) to any China XTD Group Company of any SOL Commercial Property or Reclassified Intra-Group Indebtedness, 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 Parent Guarantor, the Issuer or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Parent Guarantor, the Issuer or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$20.0 million (or the Dollar Equivalent thereof), the Parent Guarantor shall deliver to the Trustee an opinion as to the fairness to the Parent Guarantor, the Issuer or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Parent Guarantor’s most recent consolidated balance sheet, of the Parent Guarantor, the Issuer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, or the Parent Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Parent Guarantor, the Issuer or such Restricted Subsidiary from further liability;
 - (b) any securities, notes or other obligations received by the Parent Guarantor, the Issuer or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Parent Guarantor, the Issuer or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion; and

- (c) any liabilities as shown on the Parent Guarantor's most recent consolidated balance sheet, of the Parent Guarantor, the Issuer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, or the Parent Guarantee) owed to the transferee or any member of the transferee's group which are released, written-off or otherwise entitlement in connection with the Asset Sale.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Parent Guarantor, the Issuer or the applicable Restricted Subsidiary, as the case may be, may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Parent Guarantor or the Issuer or any Indebtedness of a Restricted Subsidiary (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 Parent Guarantor, the Issuer or a Restricted Subsidiary;
- (2) pay land, relocation, construction and other development costs relating to the construction of projects of any Restricted Subsidiary;
- (3) acquire Replacement Assets (which acquisition may be effected through the Parent Guarantor, the Issuer or any Restricted Subsidiary); or
- (4) in the case of any Net Cash Proceeds from a sale of shares of Capital Stock of a Person that is not a direct or indirect Subsidiary of the Parent Guarantor, make Investments constituting Permitted Investments under clause (16) of the definition thereof.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) through (4) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess Proceeds of less than US\$20.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$20.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Issuer 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 Dollar Equivalent of the outstanding principal amount of the Notes and (y) the denominator of which is equal to the Dollar Equivalent of the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Issuer may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

DESCRIPTION OF THE 2020 NOTES

Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale comprising the sale, transfer or disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) to any China XTD Group Company of any SOL Commercial Property or Reclassified Intra-Group Indebtedness, unless:

- (i) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (ii) the consideration received by the Parent Guarantor, the Issuer 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.

Any Net Cash Proceeds received in connection with such an Asset Sale and any cash received on or upon the conversion of any securities received in such an Asset Sale shall be applied in accordance with second to fifth paragraphs of the covenant described under the caption “—Limitation on Asset Sales.”

Limitation on the Parent Guarantor’s and the Issuer’s Business Activities

Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided, however*, that the Issuer 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.”

The Parent Guarantor will at all times own the entire issued and outstanding Capital Stock of the Issuer.

Use of Proceeds

Each of the Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated, under the caption “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) none of the Parent Guarantor, the Issuer and any Restricted Subsidiary provides credit support for the Indebtedness of such Restricted Subsidiary, except with respect to Indebtedness incurred pursuant to clause (r) of the second paragraph of the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock” (or refinancings thereof); (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Parent Guarantor or the Issuer or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Parent Guarantor, the Issuer 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;” *provided further* that, with respect to any designation by the Board of Directors of any of the China XTD Group Companies (and or any of their respective Restricted Subsidiaries) as Unrestricted Subsidiaries clauses (2), (3), (4), (5) and (6) above shall not apply if (x) the China XTD Ownership Condition is satisfied at such time and (y) to the extent that the assets of the Restricted Subsidiaries being designated as Unrestricted Subsidiaries are comprised of assets other than SOL Commercial Properties and Reclassified Intra-Group Indebtedness, the Board of Directors shall determine the Fair Market Value of such other assets and elect that either (i) an amount equal to such Fair Market Value shall be accounted for as an Investment made pursuant to clause (16) of the definition of “Permitted Investments” or (ii) an amount equal to such Fair Market Value shall be deducted from the amount calculated pursuant to clause (c) of the first paragraph of the covenant described under the caption “—Limitation on Restricted Payments” in calculating whether the conditions of such clause (c) have been met with respect to any subsequent Restricted Payments.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock;” (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “— Limitation on Liens;” and (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary). All designations must be evidenced by resolutions of the Board of Directors delivered to the Trustee certifying compliance with the preceding provisions.

Government Approvals and Licenses; Compliance with Law

Each of the Parent Guarantor and the Issuer 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 Parent Guarantor, the Issuer and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Parent Guarantor or the Issuer to perform its obligations under the Notes, the Parent Guarantee or the Indenture.

Anti-Layering

Each of the Parent Guarantor and the Issuer will not Incur any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Parent Guarantor or the Issuer, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes or the Parent Guarantee, as the case may be, 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.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Parent Guarantor 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 Parent Guarantor's Common Stock 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 Parent Guarantor ceases to be listed for trading on a recognized stock exchange, the Parent Guarantor 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 Parent Guarantor, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Parent Guarantor, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Parent Guarantor, 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 Parent Guarantor together with a certificate signed by the person then authorized to sign financial statements on behalf of the Parent Guarantor to the effect that such financial statements are true in all material respects and present fairly the financial position of the Parent Guarantor 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 Parent Guarantor 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 semiannual 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, with a certificate from the Parent Guarantor's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; and (b) as soon as possible and in any event within 30 days after the Parent Guarantor 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 Parent Guarantor proposes to take with respect thereto. The Trustee shall not be responsible for the determination of the Fixed Charge Coverage Ratio or the verification thereof in the Officers' Certificate.

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;

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- (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,” or the failure by the Issuer and the Parent Guarantor to make or consummate an Offer to Purchase in the manner described under the captions “— Repurchase of Notes upon a Change of Control” or “— Limitation on Asset Sales;”
 - (4) the Parent Guarantor, the Issuer 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 clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
 - (5) there occurs with respect to any Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary having an outstanding principal amount of US\$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
 - (6) one or more final judgments or orders for the payment of money are rendered against the Parent Guarantor, the Issuer or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$10.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Issuer’s or Parent Guarantor’s insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
 - (7) an involuntary case or other proceeding is commenced against the Parent Guarantor, the Issuer or any Restricted 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 Parent Guarantor, the Issuer or any Restricted Subsidiary or for any substantial part of the property and assets of the Parent Guarantor, the Issuer or any Restricted Subsidiary and such involuntary case or other proceeding remains undismitted and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Parent Guarantor, the Issuer or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
 - (8) the Parent Guarantor, the Issuer or any Restricted 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 Parent Guarantor, the Issuer or any Restricted Subsidiary or for all or substantially all of the property and assets of the Parent Guarantor, the Issuer or any Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors; or
 - (9) the Parent Guarantor denies or disaffirms its obligations under the Parent Guarantee or, except as permitted by the Indenture, the Parent Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

DESCRIPTION OF THE 2020 NOTES

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 may, and shall upon the request of Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Issuer, 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 Parent Guarantor, the Issuer 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 or any other Person.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Issuer and to the Trustee may on behalf of the Holders 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. Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee indemnity or security satisfactory to the Trustee. 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.

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 or security, or a combination of both, 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 or security; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Parent Guarantor must certify, 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 Parent Guarantor, the Issuer and the Restricted Subsidiaries and the Parent Guarantor, the Issuer's and the Restricted Subsidiaries performance under the Indenture and that the Parent Guarantor and the Issuer have 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. Each of the Parent Guarantor and the Issuer 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." The Trustee and the Principal Paying Agent need not do anything to ascertain whether any Event of Default or Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so, and, the Trustee or the Principal Paying Agent may assume that no such event has occurred and that the Issuer is performing all its obligations under the Indenture and the Notes unless an officer of the Trustee has actual knowledge or the Trustee has received written notice of the occurrence of such event or facts establishing that the Issuer is not performing all of its obligations under the Indenture and the Notes or an Event of Default has occurred. Neither the Trustee nor the Principal Paying Agent shall be required to verify any information in such notice.

Consolidation, Merger and Sale of Assets

Each of the Parent Guarantor and the Issuer 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 Parent Guarantor or the Issuer, as the case may be, shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture (in form and substance reasonably satisfactory to the Trustee), executed and delivered to the Trustee, all the obligations of the Parent Guarantor or the Issuer, as the case may be, under the Indenture, the Notes and the Parent Guarantee, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes and the Parent Guarantee, as the case may be, shall remain in full force and effect;

DESCRIPTION OF THE 2020 NOTES

- (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 Parent Guarantor or the Surviving Person of the Parent Guarantor, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Parent Guarantor immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis the Issuer or the Surviving Person of the Issuer, 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 Parent Guarantor 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) in the case of the Issuer entering into such transaction, the Parent Guarantor shall execute and deliver a supplemental indenture to the Indenture confirming that its Parent Guarantee shall apply to the obligations of the Issuer or the Surviving Person in accordance with the Notes and the Indenture.

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 the Parent Guarantor with and into the Issuer, so long as the Issuer 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 Issuer or the Parent Guarantor that may adversely affect Holders.

No Payments for Consents

Each of the Parent Guarantor and the Issuer 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 Issuer 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 will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts, and to hold monies for payment in trust) if, among other things:

- (1) the Issuer or the Parent Guarantor (a) has deposited with the Trustee (or its agent), in trust, money and/or U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity for such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Issuer or the Parent Guarantor is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;
- (2) the Issuer or the Parent Guarantor 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 Parent Guarantor, the Issuer or any of its Restricted Subsidiaries is a party or by which the Parent Guarantor, the Issuer or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Parent Guarantee will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4) and (5)(x) under the first paragraph under “— Consolidation, Merger and Sale of Assets” and all the covenants described herein under “— Certain Covenants,” other than as described under “— Certain Covenants-Government Approvals and Licenses; Compliance with Law” and “— Certain Covenants-Anti-Layering,” clause (3) under “Events of Default” with respect to clauses (3), (4) and (5)(x) under the first paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “Events of Default” with respect to such other covenants and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of money and/or U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their

terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event the Issuer exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of acceleration resulting from such Event of Default. However, the Issuer will remain liable for any such shortfall in payment.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture may be amended by the Issuer, the Parent Guarantor and the Trustee, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;
- (2) comply with the provisions described under “— Consolidation, Merger and Sale of Assets;”
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Guarantee of the Notes;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any collateral to secure the Notes or the Parent Guarantee;
- (7) 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;
- (8) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (9) to conform the text of the Indenture, the Notes or the Parent Guarantee 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 of the Indenture, the Notes or the Parent Guarantee, which intent may be evidenced by an Officers’ Certificate to that effect; or
- (10) make any other change that does not materially and adversely affect the rights of any Holder.

Amendments With Consent of Holders

The Indenture may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes and the Trustee may amend or waive future compliance by the Parent Guarantor or the Issuer with any provision thereof; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on any Note;
- (3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note or the Parent Guarantee;
- (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 the Parent Guarantor from the Parent Guarantee, except as provided in the Indenture;
- (8) 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;
- (9) amend, change or modify the Parent Guarantee in a manner that adversely affects the Holders;
- (10) 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 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 from any Asset Sale;
- (11) change the redemption date or the redemption price of the Notes from that stated under the captions “— Optional Redemption” or “— Redemption for Taxation Reasons;”
- (12) amend, change or modify the obligation of the Issuer or the Parent Guarantor to pay Additional Amounts; or
- (13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or the Parent Guarantee in a manner that adversely affects the Holders.

Unclaimed Money

Claims against the Parent Guarantor or the Issuer 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 Parent Guarantor or the Issuer in the Indenture, or in any of the Notes or the Parent Guarantee, 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 Parent Guarantor or the Issuer, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Parent Guarantee. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee and the Agents

DB Trustees (Hong Kong) Limited, has been appointed as Trustee under the Indenture and Deutsche Bank Luxembourg S.A. has been appointed as note registrar (the “Registrar”) and Deutsche Bank, AG, Hong Kong Branch has been appointed as the transfer agent (the “Transfer Agent”) and the principal paying agent (the “Principal Paying Agent” and together with the Trustee, the Registrar and the Transfer Agent, the “Agents”) 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 will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs. Subject to such provisions, the Trustee shall be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders shall have offered to the Trustee indemnity and/or security satisfactory to it against any loss, cost, expense or liability. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of 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 Notes and has not relied on and will not rely on the Trustee or the Agents in respect of such risks.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Issuer or the Parent Guarantor, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Parent Guarantor, the Issuer and any of their respective Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

If the Issuer 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.

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, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of the Issuer 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.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “Global Note”). 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 depository 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 Parent Guarantor, the Issuer, the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Note

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and additional amounts) will be made to the Principal Paying Agent in U.S. dollars. The Principal Paying Agent will, in turn, make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Parent Guarantor and the Issuer 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.”

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Under the terms of the Indenture, the Parent Guarantor, the Issuer and the Trustee 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 Parent Guarantor, the Issuer, the Trustee 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 U.S. dollar 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 U.S. dollar 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 Issuer 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\$150,000 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.”

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 Parent Guarantor, the Issuer, the Trustee 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 bookentry interests.

Individual Definitive Notes

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Issuer 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 Issuer has received a written request from a Holder, the Issuer and the Parent Guarantor will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository or the Trustee, as the case may be, the Issuer and the Parent Guarantor will use their best efforts to make arrangements with the common depository 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 Issuer and the Registrar to complete, execute and deliver such individual definitive notes. 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.

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 mail (if intended for the Parent Guarantor or the Issuer or the Trustee) addressed to the Parent Guarantor, the Issuer 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

Each of the Parent Guarantor and the Issuer will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, the Parent 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 Parent Guarantee and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

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.

“2013 Notes” means the Issuer’s RMB3,000,000,000 US\$ Settled 6.875% Senior Notes due 2013 guaranteed by the Parent Guarantor.

“2015 Notes” means the Issuer’s US\$875 million in aggregate principal amount of 9.75% senior notes due 2015 guaranteed by the Parent Guarantor.

“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, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after May 19, 2017, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to 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, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

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“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the redemption price of such Note at May 19, 2017 (such redemption price being set forth in the table appearing above under the caption “—Optional Redemption”), plus (y) all required remaining scheduled interest payments due on such Note through May 19, 2017 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Parent Guarantor, the Issuer or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Parent Guarantor, the Issuer or any Restricted Subsidiary; or (2) an acquisition by the Parent Guarantor, the Issuer or any Restricted Subsidiary of the property and assets of any Person other than the Parent Guarantor, the Issuer or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Parent Guarantor, the Issuer or any Restricted Subsidiary (other than to the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or any Restricted Subsidiary.

“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 of Capital Stock of a Subsidiary of the Parent Guarantor or issuance of Capital Stock by the Issuer or a Restricted Subsidiary) in one transaction or a series of related transactions by the Parent Guarantor, the Issuer or any Restricted Subsidiary to any Person; provided that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “— Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “— Consolidation, Merger and Sale of Assets;”
- (7) any sale, transfer or other disposition by the Parent Guarantor, the Issuer or any Restricted Subsidiary, including the sale or issuance by the Parent Guarantor, the Issuer or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Parent Guarantor, the Issuer or any Restricted Subsidiary; and

- (8) the transfer, dividend or distribution of (i) no more than 30% of the Common Stock of China XTD or a Subsidiary of China XTD to shareholders of the Parent Guarantor solely for the purposes of obtaining a Listing by Introduction of China XTD or such Subsidiary of China XTD, or (ii) no more than 10% of the Common Stock of China XTD or a Subsidiary of China XTD to shareholders of the Parent Guarantor solely for the purposes of satisfying any obligations to shareholders of the Parent Guarantor (including any assured entitlement obligations of the Parent Guarantor under Practice Note 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) in the context of a Listing by means of an initial public offering (which, for the avoidance of doubt, excludes a Listing by Introduction) of China XTD or such Subsidiary of China XTD, *provided* that in each case, after giving effect to such transfer, dividend or distribution, the China XTD Ownership Condition continues to be met.

“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.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Parent Guarantor to manage the business of the Parent Guarantor 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, and delivered to the Trustee.

“Brookfield Announcement” means the announcement made by the Parent Guarantor on October 31, 2013 disclosing, *inter alia*, the terms of the investment agreement for the Brookfield Investment.

“Brookfield Investment” means the investment by BSREP CXTD Holdings L.P. in (1) US\$ perpetual subordinated convertible securities of China XTDH in an aggregate principal amount of US\$500 million, (2) 415 million warrants to subscribe for ordinary shares in the capital of Shui On Land Limited and (3) an additional aggregate principal amount of up to US\$250 million of such perpetual convertible securities and up to an additional 27.35 million of such warrants.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

DESCRIPTION OF THE 2020 NOTES

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Parent Guarantor or the Issuer with or into another Person or the merger or amalgamation of another Person with or into the Parent Guarantor or the Issuer, or the sale of all or substantially all the assets of the Parent Guarantor or the Issuer to another Person;
- (2) the Permitted Holders are the beneficial owners of less than 35.0% of the total voting power of the Voting Stock of the Parent Guarantor or the Issuer;
- (3) 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 Issuer or the Parent Guarantor greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Parent Guarantor or the Issuer, as the case may be, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Parent Guarantor or the Issuer, as the case may be, then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Parent Guarantor or the Issuer.

“China XTD” means China Xintiandi Limited, a company incorporated under the laws of the Cayman Islands with limited liability.

“China XTDH” means China Xintiandi Holding Company Limited, a company incorporated under the laws of the Cayman Islands with limited liability.

“China XTD Group Company” means any of China XTD and any Subsidiary of China XTD from time to time, in each case for so long as it remains a Subsidiary of China XTD.

“China XTD Ownership Condition” means the Parent Guarantor, directly or indirectly, owns no less than 35% of the Voting Stock of China XTD or, in the context of a listing of a Subsidiary of China XTD, such Subsidiary, and will own not less than 35% of such Voting Stock as a result of the transaction being effected in connection with the circumstances that require the testing of the China XTD Ownership Condition and no “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is, or will become as a result of the transactions being effected in connection with the circumstances that require testing of the China XTD Ownership Condition, 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 China XTD or, in the context of a listing of a Subsidiary of China XTD, such Subsidiary greater than such total voting power held beneficially by the Parent Guarantor.

“Clearstream” means Clearstream Banking, société anonyme, Luxembourg.

“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 U.S. Treasury security having a maturity comparable to May 19, 2017 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to May 19, 2017.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Trustee, Reference Treasury Dealer Quotations for such redemption date.

“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 Parent Guarantor, the Issuer and the Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Parent Guarantor, the Issuer or any Restricted Subsidiary and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Parent Guarantor, the Issuer or any Restricted Subsidiary held by Persons other than the Parent Guarantor, the Issuer or any of the Issuer’s Wholly Owned Restricted Subsidiaries, except for dividends payable in the Parent Guarantor’s Capital Stock (other than Disqualified Stock) or paid to the Parent Guarantor, the Issuer or to a Wholly Owned Restricted Subsidiary of the Issuer.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated statement of profit or loss prepared in accordance with GAAP for such period of the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer and its Restricted Subsidiaries, without duplication, (1)

DESCRIPTION OF THE 2020 NOTES

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 (x) Guaranteed by, or (y) secured by a Lien on any asset of, the Parent Guarantor, the Issuer or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees), *provided* that with respect to clause (y), for purposes of this calculation, the amount of interest taken into account shall be equal to (i) the interest accruing on the secured Indebtedness multiplied by (ii) the ratio of the Fair Market Value of the assets subject to such Lien to the aggregate principal amount of such Indebtedness, (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 and, for the avoidance of doubt, (8) any distribution, when accrued, on any Indebtedness (including without limitation perpetual notes), whether or not accounted for as interest expense under GAAP.

“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 (and, in the case such Person is Shui On Land, including the Issuer) 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 the Issuer or 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 Parent Guarantor’s and the Issuer’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 Parent Guarantor, the Issuer 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 Parent Guarantor’s and the Issuer’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 Parent Guarantor, the Issuer or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person (other than the Issuer) accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Parent Guarantor, the Issuer or any Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (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;

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- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Parent Guarantor, the Issuer 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 Parent Guarantor or the Issuer realized on sales of Capital Stock of the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer and any Restricted Subsidiary, plus, to the extent not included, any Preferred Stock of the Parent Guarantor, 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 Parent Guarantor, the Issuer or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Parent Guarantor, the Issuer or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer 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.

“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.

“Dalian Tiandi Project” means the development project of the Issuer located in Dalian, the PRC conducted through a joint venture arrangement among the Issuer and other investors.

“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 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” 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 Issuer’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” covenants.

DESCRIPTION OF THE 2020 NOTES

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“EIT Law” means the Enterprise Income Tax Law promulgated and adopted on March 16, 2007 by the National People’s Congress of the PRC, which came into effect on January 1, 2008.

“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, *provided* that such borrowings are not reflected on the consolidated balance sheet of the Issuer.

“Equity Offering” means any private placement or public offering of Common Stock (other than Disqualified Stock) of the Parent Guarantor to any Person other than a Subsidiary of the Parent Guarantor; *provided* that the aggregate gross cash proceeds received by the Parent Guarantor from such offering shall be no less than US\$20 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank S.A./N.V.

“Fair Market Value” means either (a) 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 *provided* that in making such determination in connection with an Asset Sale comprising the sale, transfer, or disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) to any China XTD Group Company of any SOL Commercial Property, the Board of Directors shall be entitled to take into account the value of the Parent Guarantor’s, the Issuer’s or any Restricted Subsidiaries’ shareholdings in the Capital Stock of China XTD and its Subsidiaries; or (b) in the case of an Asset Sale comprising the sale, transfer or disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) to any China XTD Group Company of any SOL Commercial Property, the market price quotation for such SOL Commercial Property obtained by China XTDH from a bona fide third party purchaser.

“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 Parent Guarantor (which the Parent Guarantor 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 Parent Guarantor, the Issuer or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem 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 Parent Guarantor, the Issuer 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 International Financial Reporting Standards promulgated by the International Accounting Standards Board (or any successor board or agency) as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“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.

DESCRIPTION OF THE 2020 NOTES

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“HKEX” means the Hong Kong Exchanges and Clearing Limited.

“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;
- (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; and
- (10) any Preferred Stock issued (a) by such Person, if such Person is a Restricted Subsidiary, or (b) any Restricted Subsidiary of such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

For the avoidance of doubt, a mandatory put option granted to a Person that obligates the Parent Guarantor, the Issuer or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person shall be deemed to be “Indebtedness” unless such option may, at the option of the Parent Guarantor, be settled in Common Shares of the Parent Guarantor. For the avoidance of doubt, any such mandatory put option that allows settlement in Common Stock of the

Parent Guarantor shall not be deemed Indebtedness solely because the Parent Guarantor has the option to cash settle such option and the obligation to pay cash resulting from an election by the Parent Guarantor to cash settle such an obligation shall not constitute Indebtedness to the extent that the payment thereof is made within 120 days of such election.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligation, Entrusted Loans, pre-sale receipts in advance from customers, performance obligation or similar obligations (and any Guarantee thereof) 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 as borrowings on the consolidated balance sheet of the Parent Guarantor (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (2)(e) under the “Limitation on Indebtedness and Preferred Stock” covenant, and (ii) equal to the net amount payable by such Person if such Hedging Obligation terminated at that time if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Parent Guarantor or the Issuer.

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

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For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” or “Limitation on Restricted Payments” covenants: (1) the Parent Guarantor or the Issuer, as the case may be, will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Parent Guarantor’s or the Issuer’s proportionate interest in the Fair Market Value of the assets (net of the Parent Guarantor’s or the Issuer’s proportionate interest in the liabilities owed to any Person other than the Parent Guarantor, the Issuer or a Restricted Subsidiary and that are not Guaranteed by the Parent Guarantor, the Issuer or a Restricted Subsidiary) of a Restricted Subsidiary that is designated as an Unrestricted Subsidiary at the time of such designation *provided* that with respect to any designation by the Parent Guarantor of any of the China XTD Group Companies (and or any of their respective Restricted Subsidiaries) as Unrestricted Subsidiaries, the amount of the Investment deemed to have been made by the Parent Guarantor shall only be equal to the Fair Market Value of such assets at the time of designation which are not SOL Commercial Properties or Reclassified Intra-Group Indebtedness (if any) 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, and (3) a Guarantee shall be valued as the amount of the obligation so guaranteed to the extent such obligation is outstanding and guaranteed.

“Investment Property” means any property that is owned and held by the Parent Guarantor, the Issuer or any Restricted Subsidiary for long-term rental yields or for capital appreciation or both, or any hotel owned by the Parent Guarantor, the Issuer or any Restricted Subsidiary from which the Parent Guarantor, the Issuer or any Restricted Subsidiary derives or expects to derive operating income.

“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” means, in respect of any Person, the admission to listing of all or any part of the ordinary share capital of such Person on the Stock Exchange of Hong Kong Limited or any other recognised international exchange.

“Listing by Introduction” means a Listing by introduction on the Stock Exchange of Hong Kong Limited or any other recognised international exchange in accordance with the applicable listing rules of such exchange.

“Measurement Date” means December 23, 2010.

“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 Parent Guarantor, the Issuer and the 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 Parent Guarantor, the Issuer or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Offer to Purchase" means an offer to purchase Notes by the Issuer or the Parent Guarantor from the Holders commenced by the Issuer or the Parent Guarantor, as applicable, mailing a notice by first class mail, postage prepaid, to the Trustee, the Principal Paying 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 expressed as a percentage of the principal amount of such Note, 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 Issuer or the Parent Guarantor, as applicable, 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 Principal 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 Principal 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\$150,000 or integral multiples of US\$1,000 in excess thereof.

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On the Offer to Purchase Payment Date, the Issuer or the Parent Guarantor, as applicable, shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Principal 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 Issuer. The Principal 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\$150,000 or integral multiples of US\$1,000 in excess thereof. The Issuer or the Parent Guarantor, as applicable, will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Issuer or the Parent Guarantor, as applicable, 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 Issuer or the Parent Guarantor is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Parent Guarantor, the Issuer and the Issuer's Subsidiaries which the Issuer or the Parent Guarantor, as applicable, in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Issuer or the Parent Guarantor, as applicable, to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Parent Guarantor or, in the case of the Issuer, one of the directors or officers of the Issuer, as the case may be.

"Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee, in a form reasonably satisfactory to the Trustee. The counsel may be an employee of or counsel to the Issuer or the Parent Guarantor.

"Original Issue Date" means the date on which the Notes are originally issued under the Indenture.

"Permitted Businesses" means any business which is the same as or related, ancillary or complementary to any of the businesses of the Parent Guarantor, the Issuer and the Restricted Subsidiaries on the Original Issue Date.

"Permitted Holders" means any or all of the following:

- (1) Mr. Vincent H. S. Lo;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) 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 owned 80% by Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Parent Guarantor, the Issuer or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment or immediately thereafter, 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 Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer 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 Parent Guarantor’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;

DESCRIPTION OF THE 2020 NOTES

- (15) deposits made in order to secure the performance of the Parent Guarantor, the Issuer or any Restricted Subsidiary and prepayments made in connection with the direct or indirect acquisition of real property or land use rights by the Parent Guarantor, the Issuer or any Restricted Subsidiary, in each case in the ordinary course of business;
- (16) any Investment by the Parent Guarantor, the Issuer or any Restricted Subsidiary in any Person (other than a Restricted Subsidiary) primarily engaged in a Permitted Business, of which 15% or more of the Capital Stock and the Voting Stock is, or immediately following such Investment will be, owned, directly or indirectly, by the Parent Guarantor, the Issuer or any Restricted Subsidiary (such Person, an “Associate”), *provided* that:
- (i) the aggregate of (x) all Investments made under this clause (16) since the Original Issue Date and (y) the aggregate of all payments made pursuant to clause (8) of the second paragraph of the covenant described under “—Limitation on Restricted Payments” since the Original Issue Date shall not exceed in aggregate an amount equal to the sum of (x) 20% of Total Assets and (y) the aggregate amount of consideration received as a result of any disposal of assets or other interests in the Dalian Tiandi Project. Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (16) since the Original Issue Date resulting from:
- (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause, in each case to the Issuer or any Restricted Subsidiary or repayments of loans or advances, dividends or other distributions (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),
- (B) the unconditional release of a Guarantee provided by the Parent Guarantor, the Issuer or a Restricted Subsidiary after the Original Issue Date under this clause of an obligation of any such Person,
- (C) to the extent that an Investment made after the Original Issue Date under this clause (16) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or
- (D) such Associate becoming a Restricted Subsidiary (whereupon all Investments (other than Permitted Investments) made by the Issuer or any Restricted Subsidiary in such Associate since the Original Issue Date shall be deemed to have been made pursuant to clause (1) of this “Permitted Investment” definition);
- not to exceed, in each case, the amount of Investments made by the Parent Guarantor, the Issuer or a Restricted Subsidiary after the Original Issue Date in any such Person pursuant to this clause (16);
- (ii) no Default has occurred and is continuing or would occur as a result of such Investment;
- (17) Guarantees Incurred pursuant to clause (r) of the second paragraph of the covenant described under the caption “—Limitation on Indebtedness and Preferred Stock” (or refinancings thereof);
- (18) any Investment in Capital Stock of China XTDH or other securities issued by China XTDH made by the Parent Guarantor, the Issuer or any Restricted Subsidiary to the extent that consideration for such Investment consisted of Common Stock of the Parent Guarantor; and

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- (19) Investments in Capital Stock of China XTD or any of its Subsidiaries made by the Parent Guarantor, the Issuer or any Restricted Subsidiary where such Capital Stock is being issued or acquired in consideration for the acquisition by a China XTD Group Company of an SOL Commercial Property or where the proceeds from such issuance or acquisition of Capital Stock are applied in payment for the acquisition by a China XTD Group Company of an SOL Commercial Property.

“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, sales and dispositions of assets, 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 Parent Guarantor, the Issuer and the 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 Parent Guarantor, the Issuer or any Restricted Subsidiary 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 Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Parent Guarantor, the Issuer 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 (e) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;

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- (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 (d) 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 Issuer or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) any interest or title of a lessor in the property subject to any operating lease;
- (14) 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 Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (15) Liens (including extensions and renewals thereof) upon assets (including Capital Stock), real or personal property (including land use rights) or equipment owned by a Restricted Subsidiary created 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)(f) of the covenant under the caption entitled “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such assets, property or equipment and (b) the aggregate book value of assets, property and equipment (as reflected in the most recent available consolidated financial statements of the Parent Guarantor (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 purchase price or cost of such assets, property or equipment) subject to Liens incurred pursuant to this clause (15) does not exceed 200% of the aggregate principal amount of Indebtedness secured by such Liens;
- (16) 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 Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (17) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (18) Liens on deposits made in order to secure the performance of the Parent Guarantor, the Issuer or any Restricted Subsidiary in connection with the acquisition of real property or land use rights by the Parent Guarantor, the Issuer or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (19) Liens incurred or deposits made to secure Entrusted Loans;
- (20) Liens securing Indebtedness under any Pre-Registration Mortgage Guarantee by the Parent Guarantor, the Issuer or any Restricted Subsidiary;
- (21) Liens on Investment Properties or the assets or the Capital Stock of a Restricted Subsidiary directly or indirectly owning such Investment Properties securing Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary permitted to be Incurred under clause (2)(n) of the covenant described under the caption entitled “— Limitation on Indebtedness and Preferred Stock”;

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- (22) Any renewal or extension of the Liens described in the foregoing clauses which is limited to the original property or assets covered thereby;
- (23) Liens securing Indebtedness incurred pursuant to clause (r) of the second paragraph of the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock” (or refinancings thereof); and
- (24) any Liens securing Indebtedness or other obligations related to the Dalian Tiandi Project of the Parent Guarantor or the Issuer in an aggregate amount not to exceed RMB1.0 billion.

“Permitted Subsidiary Indebtedness” means Indebtedness (other than Public Indebtedness, but including Acquired Indebtedness) of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole; *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 any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (c), and (e) 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.

“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.

“PRC” means the People’s Republic of China, excluding Hong Kong Special Administrative Region, Macau and Taiwan.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Issuer or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Parent Guarantor, the Issuer 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 Parent Guarantor, the Issuer 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.

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“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.

“Reclassified Intra-Group Indebtedness” means (1) loans owed by the Parent Guarantor, the Issuer or a Restricted Subsidiary to a Restricted Subsidiary (the “Lender Subsidiary”) permitted to be incurred pursuant to clause (2)(c) of the covenant described under “—Limitation on Indebtedness and Preferred Stock” which upon designation of the Lender Subsidiary as an Unrestricted Subsidiary will cease to be permitted under clause (2)(c) of the covenant described under “—Limitation on Indebtedness and Preferred Stock” and (2) loans owed by the Parent Guarantor, the Issuer or a Restricted Subsidiary to China XTDH or a Subsidiary of China XTDH which are outstanding at the Original Issue Date.

“Reference Treasury Dealers” 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 Issuer in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

“Renminbi” or “RMB” means yuan, the lawful currency of the PRC.

“Replacement Assets” means, with respect to Asset Sales, (1) properties or assets that replace the properties and assets that were the subject of such Asset Sale or (2) property or assets (other than current assets) of a nature or type that are used in a Permitted Business and shall include (i) Capital Stock of any Person holding such property or assets, which is primarily engaged in a Permitted Business and will upon the acquisition by the Issuer or any of its Restricted Subsidiaries of such Capital Stock, remain or become a Restricted Subsidiary and (ii), solely with respect to an Asset Sale consisting of a sale of shares of Capital Stock of a Person other than a direct or indirect Subsidiary of the Parent Guarantor, shares of Capital Stock constituting a Permitted Investments under clause (16) of the definition thereof.

“Restricted Subsidiary” means any Subsidiary of the Parent Guarantor other than (x) an Unrestricted Subsidiary and (y) the Issuer.

“S&P” means Standard & Poor’s Ratings Services and its affiliates.

“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 Parent Guarantor, the Issuer or any Restricted Subsidiary transfers such property to another Person, which is not the Parent Guarantor, the Issuer or any Restricted Subsidiary, and the Parent Guarantor, the Issuer or any Restricted Subsidiary leases it from such Person.

“Senior Indebtedness” of the Parent Guarantor or the Issuer, as the case may be, means all Indebtedness of the Parent Guarantor or the Issuer, 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 Issuer, the Notes, or (b) in respect of the Parent Guarantor, the Parent Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Parent Guarantor, the Issuer or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“SOL Commercial Property” means any assets appearing on the consolidated balance sheet of the Parent Guarantor as “Investment properties” and, to the extent comprised of commercial real estate, any assets appearing in the consolidated balance sheet of the Parent Guarantor as “Property, plant and equipment” in each case together with any other assets connected or ancillary to such “Investment properties” and “Property, plant and equipment” and the Capital Stock of any Person substantially all of the assets of which are comprised of such “Investment properties” or “Property, plant and equipment”, or connected or ancillary assets and related working capital.

“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 Parent Guarantor or the Issuer which is contractually subordinated or junior in right of payment to the Notes or the Parent Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person; *provided* that any corporation, association or other business entity that is not consolidated with such Person in accordance with GAAP will not be Subsidiary.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, in each case maturing within one year, which in the case of obligations of, or obligations Guaranteed by, any state of the European Economic Area, shall be rated at least “A” by S&P or Moody’s;
- (2) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

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- (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 Parent Guarantor or the Issuer) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Commercial Bank of China, Hongkong and Shanghai Banking Corporation and Bank of Shanghai, (ii) any other bank, trust company or other financial institution 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 described in clause (i) of this paragraph or (iii) any other bank, trust company or other financial institution organized under the laws of the PRC or Hong Kong; *provided* that, in the case of clause (iii), such deposits do not exceed US\$10.0 million (or the Dollar Equivalent thereof) with any single bank or US\$30.0 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 Parent Guarantor, the Issuer and the 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 Parent Guarantor (which the Parent Guarantor shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(f) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Parent Guarantor, the Issuer or any Restricted Subsidiary to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Unrestricted Subsidiary” means (1) subject to any designation under the caption “Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries,” each of China XTDH and its Subsidiaries; (2) any other Subsidiary of the Issuer 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 (3) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries.

“Wuhan Tiandi Project” means the development project of the Issuer (conducted through its Subsidiaries and associates) located in Wuhan, the PRC.

TAXATION

This summary is based on the laws of the Cayman Islands, Hong Kong and PRC, and certain European Union measures, in effect on the date of this Offering Memorandum, which are subject to change (or changes in interpretation), possibly with retroactive effect. Prospective investors are urged to consult their tax advisors regarding the tax consequences of owning and disposing of our Notes.

CAYMAN ISLANDS TAXATION

The summary does not address any aspect of Cayman Islands taxation other than income taxation, capital taxation, stamp duty and estate taxation.

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, we have 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 us or our operations; and
- (b) that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by us:
 - (i) on or with respect to the shares, debentures or our other obligations; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of 20 years from the date of the undertaking, which is March 23, 2004.

Under existing Cayman Islands Laws:

- payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
- no stamp duty is payable with respect to the issue or transfer of the Notes although duty may be payable if Notes are executed in or brought into the Cayman Islands; and
- the Global Note representing the Notes, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Note if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

HONG KONG

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal or interest with respect to the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong with respect to assessable profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

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 and where the interest is derived from Hong Kong; or
- (c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is with respect to the funds of the trade, profession or business and where the interest is derived from Hong Kong.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue, or subsequent transfer of the Notes (for so long as the register of holders of the Notes is maintained outside Hong Kong).

PRC

Under the EIT Law and the Implementation Rules both of which took effect on January 1, 2008, enterprises established outside the PRC whose “de facto management bodies” are located in China are considered as “PRC tax resident enterprises”. The Implementation Rules define the term “de facto management body” as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. Each of the Parent Guarantor and the Issuer (hereinafter referred to as an “Offshore Company”) holds its shareholders’ meeting and board meetings outside China and keeps its shareholders’ list outside China. However, most of the Offshore Companies’ directors and senior management are currently based inside China and the Offshore Companies keep their books of account inside China. The above elements may be relevant for the tax authorities to determine whether any of our Offshore Companies is a PRC resident enterprise for tax purposes. Although it is unclear under PRC tax law whether any of our Offshore Companies has a “de facto management body” located in China for PRC tax purposes, each Offshore Company intends to take the position that it is not PRC resident enterprise for tax purposes. We cannot assure you that tax authorities will respect our position. Our PRC counsel, Jin Mao PRC lawyers, has advised us that if any of our Offshore Companies is deemed to be a PRC resident enterprise for enterprise income tax purposes, among other things, it would be subject to PRC enterprise income tax at the rate of 25% on its worldwide taxable income. Furthermore, the relevant Offshore Company may be obligated to withhold PRC income tax of 7% on payments of, or in respect of, interest on the Notes to investors that are non-resident enterprises located in Hong Kong, or 10% (or a lower rate for holders who qualify for the benefits of a double-taxation treaty with China) on payments of or in respect of, interest on the Notes to investors that are non-resident enterprises located outside Hong Kong, because the interest may be regarded as being derived from sources within the PRC. If the relevant Offshore Company fails to do so, it may be subject to fines and other penalties. In addition, if the Issuer is treated as a PRC resident enterprise, any gain realized by such non-resident enterprise investors from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly may be subject to PRC income tax at a rate of 10%. In the case of non-resident holders

of Notes other than enterprises, a withholding tax applicable to interest payments and capital gains may be imposed at a rate of 20%. However, if the Issuer is not considered as a PRC resident enterprise for enterprise income tax purposes, non-resident investors would not be subject to PRC income tax on any interest received on the Notes or any gains realized from the transfer of the Notes.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

The Council of the European Union has adopted a directive regarding the taxation of savings income. Member States are required to provide to the tax authorities of other Member States details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, except that Luxembourg and Austria may instead operate a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period as they elect otherwise. On April 10, 2013, the Luxembourg Ministry of Finance announced that Luxembourg's transitional period will end with effect from January 1, 2015.

On September 15, 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On November 13, 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on April 24, 2009. If any of those proposed changes is made in relation to the Directive, they may amend or broaden the scope of the requirements described above. A number of non-EU countries have adopted similar measures to the Savings Directive.

PLAN OF DISTRIBUTION

Subject to the terms and conditions in the purchase agreement dated April 30, 2014 (the “**Purchase Agreement**”) between Standard Chartered Bank and UBS AG, Hong Kong Branch, (each, an “**Initial Purchaser**” and collectively, the “**Initial Purchasers**”), on one hand, and us and the Issuer on the other hand, the Initial Purchasers have agreed, severally and not jointly, to purchase from the Issuer, our subsidiary, and the Issuer agrees to sell to the Initial Purchasers, US\$266,000,000 aggregate principal amount of the Notes, with the Parent Guarantee endorsed thereon, as set forth opposite their names in the following table:

	Principal Amount of 2018 Notes	Principal Amount of 2020 Notes
Initial Purchaser of Securities		
Standard Chartered Bank	US\$89,490,000	US\$43,510,000
UBS AG, Hong Kong Branch	US\$89,490,000	US\$43,510,000
Total	US\$178,980,000	US\$87,020,000

The Purchase Agreement provides that the obligation of the Initial Purchasers to purchase the Notes is subject to approval of certain legal matters by counsel and to certain other conditions. The Initial Purchasers must purchase all of the Notes if they purchase any of the Notes.

The Initial Purchasers initially propose to offer the Notes for resale at the issue price of such series that appears on the cover of this Offering Memorandum. After the initial offering, the Initial Purchasers may change the offering price and any other selling terms. The Initial Purchasers may offer and sell the Notes through certain of their affiliates. We have agreed that the Initial Purchasers or certain of their respective affiliates may subscribe and allocate the Notes for asset management and/or proprietary purposes and not with a view to distribution. In addition, we have agreed with the Initial Purchasers that we will pay a commission to private banks in connection with the purchase of the Notes by their private bank clients, which commission may be deducted from the purchase price for the Notes payable by such private banks upon settlement.

The Issuer and the Parent Guarantor will pay the Initial Purchasers’ customary fees and commissions in connection with the offering and will reimburse the Initial Purchasers for certain expenses incurred in connection with the offering.

In the Purchase Agreement, we and the Issuer have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the Initial Purchasers may be required to make in respect of those liabilities.

The Notes are a new issue of securities, and there is currently no established trading market for such series. In addition, the Notes are subject to certain restrictions on resale and transfer as described under “*Transfer Restrictions*”. Approval in-principle has been received for the listing of the Notes on the SGX-ST. However, we cannot assure you that we will obtain or be able to maintain such listing. The Initial Purchasers have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The Initial Purchasers may discontinue any market making in the Notes at any time in their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favorable.

PLAN OF DISTRIBUTION

In connection with the offering of the Securities, Standard Chartered Bank as stabilizing manager or any other person acting as stabilizing manager may engage in over-allotment, stabilizing transactions and syndicate covering transactions. Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the Notes to be higher than it would otherwise be in the absence of those transactions. If the stabilizing manager or its agent engages in stabilizing or syndicate covering transactions, they may discontinue them at any time.

The Initial Purchasers and their affiliates perform various financial advisory, investment banking and commercial banking services, from time to time, for us and our affiliates and may be paid fees in connection with such services from time to time. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

No action is being taken or is contemplated by us that would permit a public offering of any series of the Notes, or possession or distribution of any preliminary offering memorandum or offering memorandum or any amendment thereof, any supplement thereto or any other offering material relating to any series of the Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

None of the Notes has been or will be registered under the Securities Act and the Notes may only be offered, sold or delivered to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

An offer or sale of any series of the Notes within the United States may violate the registration requirements of the Securities Act unless the offer or sale is in compliance with an exemption from registration under the Securities Act.

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this Offering Memorandum, which will be on or about the 13th business day following the pricing date of the Notes (this settlement cycle being referred to as "T+13"). Accordingly, purchasers who wish to trade Notes prior to the settlement date will be required, by virtue of the fact that the Notes initially will settle in T+13, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or succeeding business days should consult their own legal advisor.

United States

The Notes have not been and will not be registered under the Securities Act, and may only be offered or sold to non-U.S. persons outside the United States in offshore transactions pursuant to an applicable exemption from the registration requirements of the Securities Act in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States or to, or for the benefit of, U.S. persons by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act unless the dealer makes the offer or sell in compliance with an exemption from registration under the Securities Act.

United Kingdom

No invitation or inducement to engage in investment activity (within the meanings of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”) received by the Initial Purchasers in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which section 21(1) of the FSMA does not apply to the Initial Purchasers. All applicable provisions of the FSMA must be complied with in respect to anything done or to be done by the Initial Purchasers in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

This Offering Memorandum has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this Offering Memorandum may not be issued, circulated or distributed in Hong Kong. A copy of this Offering Memorandum may, however, be issued to a limited number of prospective applicants for the Notes in Hong Kong in a manner which does not constitute an offer of the Notes to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong).

No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571. Laws of Hong Kong) and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the “**FIEA**”) and may not be offered or sold directly or indirectly, 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 FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (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.

PLAN OF DISTRIBUTION

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six (6) months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, 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 for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

PRC

No Notes shall be offered or sold in the PRC (excluding Hong Kong, Macau and Taiwan) directly or indirectly, except in compliance with applicable laws and regulations.

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 Issuer is listed on the Cayman Islands Stock Exchange.

Switzerland

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations and neither this document nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

TRANSFER RESTRICTIONS

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, you will be deemed to have made the following acknowledgements, representations to, and agreements with, us and the Initial Purchasers:

1. You understand and acknowledge that:
 - the Notes have not been registered under the Securities Act or any other applicable securities laws;
 - the Notes are being offered for resale in transactions that do not require registration under the Securities Act or any other applicable securities laws;
 - the Notes are being offered and sold only to non-U.S. persons outside the United States, in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and
 - unless so registered, the Notes may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph 4 below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing the Notes in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers have made any representation to you with respect to us or the offering of the Notes, other than the information contained in this Offering Memorandum. You represent that you are relying only on this Offering Memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase the Notes including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing the Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:
 - to us;
 - under a registration statement that has been declared effective under the Securities Act;
 - outside the United States in compliance with Rule 903 or 904 under the Securities Act; or
 - under any other available exemption from the registration requirements of the Securities Act,

TRANSFER RESTRICTIONS

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or account's control and in compliance with applicable state and other securities laws.

5. You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the date that is 40 days after the later of the closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes (the "**Resale Restriction Period**"), and will not apply after the applicable Resale Restriction Period ends; and
- each Note will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS NOTE, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SUCH NOTE, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE, PRIOR TO THE DATE (THE "**RESALE RESTRICTION TERMINATION DATE**") THAT IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF SUCH NOTE), ONLY (A) TO THE ISSUER (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR THE ACCOUNT OF A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATIONS UNDER THE SECURITIES ACT.

6. You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Notes is no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

7. You also acknowledge that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, you have represented, warranted and agreed that you have not offered or sold the Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will you circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, 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.

GENERAL INFORMATION

CONSENTS

The Issuer and the Parent Guarantor have obtained all necessary consents, approvals and authorizations in the Cayman Islands and Hong Kong, respectively, in connection with the issue of the Notes and the Parent Guarantee and performance of obligations thereunder. The entering into of the Indenture and the issue of the Notes and the consummation of the other transactions contemplated thereunder have been authorized by a resolution of the Issuer's Board of Directors dated April 9, 2014. The giving of the Parent Guarantee by the Parent Guarantor was duly approved by a resolution of the Parent Guarantor's Board of Directors on April 9, 2014.

LITIGATION

Save as disclosed in this Offering Memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes or the Parent Guarantee.

NO MATERIAL ADVERSE CHANGE

There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2013 that is material in the context of the issue of the Notes.

DOCUMENTS AVAILABLE

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the last three financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

CLEARING SYSTEM AND SETTLEMENT

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

	<u>ISIN</u>	<u>Common Code</u>
2018 Notes	XS1058142081	105814208
2020 Notes	XS1058142248	105814224

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear and Clearstream.

LISTING OF THE NOTES

Approval in-principle has been received for the listing of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Offering Memorandum. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Parent Guarantor or the Notes. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$100,000 with a minimum of two board lots to be traded in a single transaction for so long as any of the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

GENERAL INFORMATION**Auditors**

The consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013 have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as stated in their reports appearing elsewhere in this Offering Memorandum.

Issuer's accounts

Under Cayman Islands law, the Issuer is not required to publish interim or annual accounts. The Issuer has not published and does not propose to publish, any of its accounts. The Issuer is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of the Issuer's affairs and to explain its transactions.

DOCUMENTS INCORPORATED BY REFERENCE

The consolidated financial statements as of and for the year ended December 31, 2011 included in our consolidated financial statements as of and for the year ended December 31, 2012 are incorporated by reference and are considered part of this Offering Memorandum.

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(1) Independent Auditor's Report on the consolidated financial statements of the Company set out herein are reproduced from the Company's Annual Report for the years ended December 31, 2012 and 2013, respectively, and page references included in the Independent Auditor's Report refer to pages set out in such annual reports as applicable.

INDEPENDENT AUDITOR'S REPORT



To the Shareholders of Shui On Land Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shui On Land Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 106 to 194, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 International Financial Reporting Standards 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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International 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

19 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Notes	2013 RMB'million	2012 RMB'million
Turnover			
– The Company and its subsidiaries (“the Group”)		9,828	4,821
– Share of associates		261	271
		10,089	5,092
Turnover of the Group	5	9,828	4,821
Cost of sales		(6,673)	(2,761)
Gross profit		3,155	2,060
Other income	6	602	282
Selling and marketing expenses		(328)	(207)
General and administrative expenses		(938)	(738)
Operating profit	7	2,491	1,397
Increase in fair value of investment properties	13	2,912	2,698
Share of results of associates		(178)	82
Finance costs, inclusive of exchange differences	8	(448)	(459)
Profit before taxation		4,777	3,718
Taxation	9	(2,072)	(1,363)
Profit for the year		2,705	2,355
Attributable to:			
Shareholders of the Company		2,125	2,029
Owners of perpetual capital securities		314	19
Other non-controlling shareholders of subsidiaries		266	307
		580	326
		2,705	2,355
Earnings per share	12		(Restated)
– Basic		RMB0.28	RMB0.32
– Diluted		RMB0.28	RMB0.29

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 RMB'million	2012 RMB'million
Profit for the year		2,705	2,355
Other comprehensive income (expense)			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		(14)	(52)
Fair value adjustments on interest rate swaps designated as cash flow hedges	32	14	54
Net adjustment of hedge reserve reclassified to profit or loss upon early termination of interest rate swaps	32	–	(47)
Fair value adjustments on cross currency swaps designated as cash flow hedges	32	(98)	–
Reclassification from hedge reserve to profit or loss	32	75	–
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligations	34	(38)	–
Revaluation increase upon transfer from property, plant and equipment and prepaid lease payments to investment properties		31	–
Other comprehensive expense for the year		(30)	(45)
Total comprehensive income for the year		2,675	2,310
Total comprehensive income attributable to:			
Shareholders of the Company		2,095	1,984
Owners of perpetual capital securities		314	19
Other non-controlling shareholders of subsidiaries		266	307
		580	326
		2,675	2,310

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2013

	Notes	2013 RMB'million	2012 RMB'million
Non-current assets			
Investment properties	13	50,273	46,624
Property, plant and equipment	14	3,577	3,782
Prepaid lease payments	15	586	671
Interests in associates	17	1,086	1,264
Interests in joint ventures	18	25	–
Loans to associates	17	1,654	1,659
Accounts receivable	19	171	102
Loan to a joint venture	18	675	–
Pledged bank deposits	20	2,747	1,720
Deferred tax assets	33	100	93
		60,894	55,915
Current assets			
Properties under development for sale	16	22,711	20,150
Properties held for sale	21	1,536	3,274
Accounts receivable, deposits and prepayments	19	5,066	2,606
Amounts due from associates	17	564	484
Amounts due from related companies	22	347	210
Amounts due from non-controlling shareholders of subsidiaries	23	51	65
Pledged bank deposits	20	824	443
Restricted bank deposits	20	1,231	183
Bank balances and cash	20	5,378	6,287
		37,708	33,702
Current liabilities			
Accounts payable, deposits received and accrued charges	24	11,046	7,903
Amounts due to related companies	22	411	782
Amounts due to associates	17	–	11
Amounts due to non-controlling shareholders of subsidiaries	23	634	530
Tax liabilities		823	908
Bank and other borrowings – due within one year	26	6,315	5,103
Convertible bonds	29	–	2,346
Notes	30	–	2,980
		19,229	20,563
Net current assets		18,479	13,139
Total assets less current liabilities		79,373	69,054

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2013

	Notes	2013 RMB'million	2012 RMB'million
Capital and reserves			
Share capital	27	145	114
Reserves		36,010	31,367
Equity attributable to shareholders of the Company		36,155	31,481
Perpetual capital securities	31	3,094	3,093
Other non-controlling shareholders of subsidiaries		2,925	2,694
		6,019	5,787
Total equity		42,174	37,268
Non-current liabilities			
Bank and other borrowings – due after one year	26	18,051	13,700
Convertible bonds	29	395	–
Notes	30	10,330	10,539
Derivative financial instruments designated as hedging instruments	32	105	23
Loans from non-controlling shareholders of subsidiaries	25	2,605	2,484
Deferred tax liabilities	33	5,662	5,028
Defined benefit liabilities	34	51	12
		37,199	31,786
Total equity and non-current liabilities		79,373	69,054

The consolidated financial statements on pages 106 to 194 were approved and authorised for issue by the Board of Directors on 19 March 2014 and are signed on its behalf by:

Vincent H. S. LO
DIRECTOR

Daniel Y. K. WAN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to shareholders of the Company												Perpetual capital securities RMB' million (note 31)	Other non-controlling shareholders of subsidiaries		Sub-total RMB' million	Total RMB' million
	Share capital RMB' million	Share premium RMB' million	Merger reserve RMB' million (note 28(a))	Special reserve RMB' million (note 28(b))	Share option reserve RMB' million	Exchange reserve RMB' million	Convertible bond equity reserve RMB' million	Hedge reserve RMB' million	Other reserves RMB' million (note 28(c))	Property revaluation reserve RMB' million	Retained earnings RMB' million	Sub-total RMB' million		RMB' million	RMB' million		
At 1 January 2012	102	12,985	122	(135)	170	20	605	(30)	637	-	13,469	27,945	-	1,526	1,526	29,471	
Profit for the year	-	-	-	-	-	-	-	-	-	-	2,029	2,029	19	307	326	2,355	
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(52)	-	-	-	-	-	(52)	-	-	-	(52)	
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 32)	-	-	-	-	-	-	-	54	-	-	-	54	-	-	-	54	
Net adjustment of hedge reserve reclassified to profit or loss upon early termination of interest rate swaps (note 32)	-	-	-	-	-	-	(47)	-	-	-	-	(47)	-	-	-	(47)	
Total comprehensive income for the year	-	-	-	-	-	(52)	7	-	-	-	2,029	1,984	19	307	326	2,310	
Recognition of equity-settled share-based payment expenses	-	-	-	-	18	-	-	-	-	-	-	18	-	-	-	18	
Issue of new shares	10	1,756	-	-	-	-	-	-	-	-	-	1,766	-	-	-	1,766	
Capital injection	-	-	-	-	-	-	-	-	-	-	-	-	-	32	32	32	
Acquisition of subsidiaries (note 35(a))	-	-	-	-	-	-	-	-	-	-	-	-	-	661	661	661	
Acquisition of additional interests in a subsidiary (note 35(b)(i))	-	-	-	-	-	-	-	(188)	-	-	-	(188)	-	188	188	-	
Partial disposal of equity interests in subsidiaries (note 35(c)(i))	-	-	-	-	-	-	-	-	138	-	-	138	-	-	-	138	
Issue of perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	-	3,137	-	3,137	3,137	
Expenses on issue of perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	-	(63)	-	(63)	(63)	
Dividend paid to a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(20)	(20)	(20)	
Total dividends of HK\$0.125 paid, comprising 2011 final dividend of HK\$0.10 per share and 2012 interim dividend of HK\$0.025 per share	-	-	-	-	-	-	-	-	-	-	(595)	(595)	-	-	-	(595)	
Shares issued in lieu of cash dividend	2	411	-	-	-	-	-	-	-	-	-	413	-	-	-	413	
At 31 December 2012	114	15,152	122	(135)	188	(32)	605	(23)	587	-	14,903	31,481	3,093	2,694	5,787	37,268	
Profit for the year	-	-	-	-	-	-	-	-	-	-	2,125	2,125	314	266	580	2,705	
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(14)	-	-	-	-	-	(14)	-	-	-	(14)	
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 32)	-	-	-	-	-	-	-	14	-	-	-	14	-	-	-	14	
Reclassification from hedge reserve to profit or loss (note 32)	-	-	-	-	-	-	-	75	-	-	-	75	-	-	-	75	
Fair value adjustments on cross currency swaps designated as cash flow hedges (note 32)	-	-	-	-	-	-	-	(98)	-	-	-	(98)	-	-	-	(98)	
Remeasurement of defined benefit obligations (note 34)	-	-	-	-	-	-	-	-	-	-	(38)	(38)	-	-	-	(38)	
Revaluation increase upon transfer of property, plant and equipment and prepaid lease payments to investment properties	-	-	-	-	-	-	-	-	31	-	-	31	-	-	-	31	
Total comprehensive income for the year	-	-	-	-	-	(14)	(9)	-	31	2,087	2,095	314	266	580	2,675		
Recognition of equity-settled share-based payment expenses	-	-	-	-	11	-	-	-	-	-	-	11	-	-	-	11	
Issue of new shares under rights issue	31	2,906	-	-	-	-	-	-	-	-	-	2,937	-	-	-	2,937	
Share issue expenses	-	(38)	-	-	-	-	-	-	-	-	-	(38)	-	-	(38)		
Capital injection	-	-	-	-	-	-	-	-	-	-	-	-	-	25	25	25	
Acquisition of additional interests in subsidiaries (note 35(b)(i))	-	-	-	-	-	-	-	(52)	-	-	-	(52)	-	(125)	(125)	(177)	
Partial disposal of equity interests in subsidiaries (note 35(c)(i))	-	-	-	-	-	-	-	-	84	-	-	84	-	9	9	93	
Dividend paid to a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(18)	(18)	(18)	
Total dividends of HK\$0.057 paid, comprising 2012 final dividend of HK\$0.035 per share and 2013 interim dividend of HK\$0.022 per share	-	-	-	-	-	-	-	-	-	-	(363)	(363)	-	-	-	(363)	
Distribution to owners of perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	-	(313)	-	(313)	(313)	
Disposal of subsidiaries (note 35(d))	-	-	-	-	-	-	-	-	-	-	-	-	-	(21)	(21)	(21)	
Repurchase and redemption of convertible bonds (note 29)	-	-	-	-	-	-	(509)	-	-	-	509	-	-	-	-	-	
Fair value adjustment at the initial recognition in respect of interest free loans advanced from a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	95	95	95	
At 31 December 2013	145	18,020	122	(135)	199	(46)	96	(32)	619	31	17,136	36,155	3,094	2,925	6,019	42,174	

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 RMB'million	2012 RMB'million
Operating activities		
Profit before taxation	4,777	3,718
Adjustments for:		
Depreciation of property, plant and equipment	192	176
Release of prepaid lease payments	2	2
Net foreign exchange loss (gain)	22	(11)
Share of results of associates	178	(82)
Loss on disposal of property, plant and equipment	–	1
Gain on disposal of investment properties	(51)	–
Finance costs, inclusive of exchange differences	448	459
Interest income	(229)	(181)
Increase in fair value of investment properties	(2,912)	(2,698)
Increase in defined benefit liabilities	–	5
Equity-settled share-based payment expenses	11	18
Gain on disposal of subsidiaries	(159)	–
Gain on acquisition of subsidiaries	–	(50)
Operating cash flows before movements in working capital	2,279	1,357
Increase in accounts receivable, deposits and prepayments	(2,529)	(87)
Increase in properties under development for sale	(5,043)	(6,712)
Decrease in properties held for sale	6,049	2,178
(Increase) decrease in restricted bank deposits	(1,048)	152
(Increase) decrease in amounts due from related companies	(137)	79
Decrease in amounts due to related companies	(213)	(41)
(Decrease) increase in amounts due to associates	(11)	6
Increase in accounts payable, deposits received and accrued charges	3,663	2,587
Cash generated from (used in) operations	3,010	(481)
Tax paid	(1,184)	(1,704)
Net cash from (used in) operating activities	1,826	(2,185)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2013

	Notes	2013 RMB'million	2012 RMB'million
Investing activities			
Interest received		178	137
Purchase of property, plant and equipment		(186)	(464)
Proceeds from disposal of property, plant and equipment		2	–
Additions to investment properties		(4,450)	(3,617)
Proceeds from disposal of investment properties		444	24
Advances to associates		(80)	(412)
Cash inflow from acquisition of subsidiaries	35(a)	–	111
Net cash inflow on disposal of subsidiaries	35(d)	3,178	–
Withdrawal of pledged bank deposits		1,005	1,895
Placement of pledged bank deposits		(2,413)	(1,546)
Repayment of loans receivable		–	152
Advances of loans to a joint venture		(675)	–
Investment in a joint venture		(25)	–
Repayment from non-controlling shareholders of subsidiaries		14	–
Net cash used in investing activities		(3,008)	(3,720)
Financing activities			
Advance from non-controlling shareholders of subsidiaries		104	193
Repayment of loans advanced by non-controlling shareholders of subsidiaries		(102)	(15)
Capital injected by non-controlling shareholders of subsidiaries		25	32
Cash outflow from acquisition of additional interests in subsidiaries	35(b)(i)	(177)	–
Proceeds received in respect of partial disposal of equity interests in subsidiaries	35(c)	39	138
New bank and other borrowings raised		12,230	10,001
Repayment of bank and other borrowings		(5,776)	(9,066)
Issue of notes	30	–	6,952
Expenses on issue of notes	30	–	(137)
Issue of perpetual capital securities		–	3,137
Expenses on issue of perpetual capital securities		–	(63)
Issue of new shares under rights issue	27	2,937	–
Share issue expenses	27	(38)	–
Repayment of notes	30	(3,000)	–
Repurchase and redemption of convertible bonds	29	(2,287)	–
Settlement of interest rate swaps designated as cash flow hedges		–	(73)
Interest paid		(2,838)	(2,220)
Payment of dividends		(363)	(182)
Distribution to owners of perpetual capital securities		(313)	–
Dividend payment to a non-controlling shareholder of a subsidiary		(18)	(20)
Net cash from financing activities		423	8,677
Net (decrease) increase in cash and cash equivalents		(759)	2,772
Cash and cash equivalents at the beginning of the year		6,287	3,523
Effect of foreign exchange rate changes		(150)	(8)
Cash and cash equivalents at the end of the year		5,378	6,287
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		5,378	6,287

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. General

Shui On Land Limited (the “Company”) was incorporated on 12 February 2004 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 4 October 2006. The Directors of the Company consider that its ultimate holding company is Shui On Company Limited (“SOCL”), a private limited liability company incorporated in the British Virgin Islands (“BVI”). Its ultimate controlling party is Mr. Vincent H.S. Lo, who is also the Chairman and Executive Director of the Company.

The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company acts as an investment holding company. The principal activities of the Company’s subsidiaries are set out in note 45. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2. Application of New and Revised International Financial Reporting Standards (“IFRSs”)

In the current year, the Group has applied the following new and revised IFRSs, which are effective for the Group’s financial year beginning on 1 January 2013.

Amendments to IFRSs	Annual Improvements to IFRSs 2009 – 2011 Cycle
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

The Group has applied IFRS 12 for the first time in the current year. IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see note 45 for details).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Application of New and Revised International Financial Reporting Standards (“IFRSs”) (Continued)

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of IFRS 13 is broad: the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

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

IFRS 13 requires prospective application. In accordance with the transitional provisions of IFRS 13, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see notes 13, 34 and 43 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to IAS 1, the Group's statement of comprehensive income is renamed as the statement of profit or loss and other comprehensive income and the income statement is renamed as the statement of profit or loss. The amendments to IAS 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. Furthermore, the amendments to IAS 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 do not change the 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. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

IAS 19 Employee Benefits (as revised in 2011)

In the current year, the Group has applied IAS 19 Employee Benefits (as revised in 2011) and the related consequential amendments for the first time. IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. The application of IAS 19 (as revised in 2011) has had no material impact on the results and the financial position of the Group for current and prior years. Accordingly, no adjustment is presented on the Group's basic and diluted earnings per share for the current and prior years.

2. Application of New and Revised International Financial Reporting Standards (“IFRSs”) (Continued)

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle ²
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle ²
IFRS 9	Financial Instruments ³
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures ³
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ¹
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions ²
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities ¹
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets ¹
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting ¹
IFRIC 21	Levies ¹

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 July 2014, with certain exceptions. Early application is permitted.

3 Available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised 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 amortised 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. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 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 IAS 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.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors of the Company anticipate that the application of IFRS 9 will not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and derivative financial instruments which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with IFRSs. 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.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The significant accounting policies adopted are set out as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted, based on the carrying amount of the net assets attributable to the change in interests, and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Significant Accounting Policies (Continued)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. 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. Cost incurred for investment properties under construction or development comprises development expenditure including professional charges directly attributable to the development and borrowing cost, and these costs are capitalised as part of the carrying amount of the investment properties under construction or development during the development period.

Subsequent to initial recognition, investment properties, including completed investment properties and certain investment properties under construction or development, are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

In circumstances where the fair values of investment properties under construction or development are not reliably determinable, such investment properties under construction or development are measured at cost less impairment, if any, until when their fair values become reliably determinable, which occur upon finalisation of the development plan, at which point in time the land and relocation cost and construction costs attributable to the investment property portion is reliably determinable.

An investment property is derecognised 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 the profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment, other than hotels under development, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Hotels under development held for owner's operation are stated at cost less subsequent accumulated impairment losses, if any. Cost comprises development expenditure including professional charges directly attributable to the development and borrowing cost capitalised during the development period. No depreciation is provided on the cost of hotels under development until hotels commence operation.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than hotels under development, over their estimated useful lives and after taking into account their estimated residual value, 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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

3. Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised 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 recognised in profit or loss.

Prepaid lease payments

Prepaid lease payments for leasehold land classified as operating leases are charged to the profit or loss on a straight-line basis over the period of the land use rights.

Properties under development for sale

Properties under development which are intended to be held for sale are carried at lower of cost and net realisable value and are shown as current assets. Cost includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalised during construction period.

Properties under development for sales are transferred to properties held for sale when the relevant completion certificates are issued by the respective government authorities.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to the properties held for sale. Net realised value is determined based on prevailing market conditions.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Significant Accounting Policies (Continued)

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised 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 recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised 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 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 recognised 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 accounts receivable, loans to associates, loan to a joint venture, amounts due from associates, amounts due from related companies, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, restricted bank deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables 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 loans and receivables, the estimated future cash flows of loans and receivables have been affected.

The 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 and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, 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 receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised 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 loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss of loans and receivables decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised 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 amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt 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 entered into 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 an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Perpetual capital securities issued by the Group, which includes no contractual obligation for the Group to deliver cash or another financial asset to the holders or to exchange financial assets or financial liabilities with the holders under conditions that are potentially unfavourable to the Group, are classified as equity instruments and are initially recorded at the proceeds received.

Effective interest method

The effective interest method is a method of calculating the amortised 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 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 recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Convertible bonds

The component parts of the convertible bonds issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled 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 an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Notes

Notes issued by the Group are measured at amortised cost, using the effective interest method. Transaction costs are included in the carrying amount of the notes and amortised over the period of the notes using the effective interest method.

Other financial liabilities

The Group's other financial liabilities (including accounts payable, amounts due to related companies, amounts due to associates, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries, and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Derivative financial instruments and hedging (Continued)

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and hedging item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in finance costs. Amounts previously recognised in other comprehensive income and accumulated in hedge reserve are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of profit or loss as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in hedge reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if designated as at fair value through profit or loss, are subsequently measured at the higher of:

- (i) the amount of obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition

The Group derecognises 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

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 recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises 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 derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Significant Accounting Policies (Continued)

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 recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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 capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Taxation 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 profit or loss because of income or expense that are taxable or deductible in other years and 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 recognised 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 recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised 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 recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, 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 and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise 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 realised, 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.

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.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 recognised 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 on the 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 on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies under “Hedge accounting” above).

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. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the period, 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 recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees (including Directors)

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, such that the cumulative expenses reflects the revised estimates, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Significant Accounting Policies (Continued)

Equity-settled share-based payment transactions (Continued)

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, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item retirement benefits costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. Significant Accounting Policies (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from properties developed for sale in the ordinary course of business is recognised upon delivery of properties to the purchasers pursuant to the sales agreements. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue from hotel operation is recognised when the relevant services are provided.

Property management fee income and rental related income are recognised in profit or loss when the services are rendered.

Interest income from a financial asset is recognised 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.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing above.

4. Critical Accounting Judgements 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 judgements, 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), 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 recognised in the consolidated financial statements.

Deferred taxation on investment properties

During the year ended 31 December 2012, for the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that 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. As at 31 December 2012, the Group has recognised deferred tax liabilities of RMB3,728 million in respect of the revaluation of investment properties.

During the year ended 31 December 2013, the Directors have revisited the investment strategies of the Group and concluded that certain of the Group's investment properties are no longer held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on such investment properties, the Directors have determined that the presumption that the carrying amounts of these investment properties measured using the fair value model are recovered entirely through sales is not rebutted. As a result, the Group has recognised additional deferred tax liabilities of RMB135 million as at 31 December 2013 in respect of the land appreciation tax ("Land Appreciation Tax") on the cumulative revaluation gains of such investment properties as they are subject to Land Appreciation Tax and enterprise income tax ("Enterprise Income Tax") in the People's Republic of China ("PRC") upon disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Critical judgements in applying accounting policies (Continued)

Perpetual capital securities

Pursuant to the terms of the Perpetual Capital Securities (as defined in note 31), a subsidiary of the Company, as an issuer of the Perpetual Capital Securities, can at its option redeem the Perpetual Capital Securities and at its discretion defer distributions on the Perpetual Capital Securities. However, the Company and the issuer will not be able to declare or pay any dividends if any distributions on the Perpetual Capital Securities are unpaid or deferred. In the opinion of the Directors of the Company, this restriction does not result in the subsidiary having the obligation to redeem the Perpetual Capital Securities or pay distributions on the Perpetual Capital Securities. Accordingly, the Perpetual Capital Securities are classified as equity instruments. The carrying amount of the Perpetual Capital Securities is RMB3,094 million (2012: RMB3,093 million). Details of which are set out in note 31.

Significant influence over Richcoast Group Limited (“Richcoast”) and its subsidiaries (the “Richcoast Group”)

Note 17 describes that Richcoast Group are considered as associates of the Group although the Group owns 61.54% equity interest in Richcoast Group. The Group has significant influence over Richcoast Group by virtue of its contractual right to appoint four out of ten Directors to the Board of Directors of Richcoast. For more information on Richcoast, please refer to note 17.

Key sources of estimation uncertainty

The following and those disclosed in note 39(b) 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.

Fair value measurements and valuation processes

The Group's certain assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the management of the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The management of the Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the management of the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the Directors of the Company.

Information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities are disclosed in notes 13, 34 and 43.

Land Appreciation Tax

The Group is subject to Land Appreciation Tax in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and the Group has not finalised its Land Appreciation Tax calculation and payments with local tax authorities for all land lots in the PRC. Accordingly, significant judgement is required in determining the amount of the Land Appreciation Tax and its related income tax provisions. The Group recognised the Land Appreciation Tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax provisions in the periods in which such tax is finalised with local tax authorities.

5. Turnover and Segmental Information

An analysis of the turnover of the Group and share of turnover of associates for the year is as follows:

	2013			2012		
	Group RMB'million	Share of associates RMB'million	Total RMB'million	Group RMB'million	Share of associates RMB'million	Total RMB'million
Property development:						
Property sales	8,361	230	8,591	3,541	244	3,785
Property investment:						
Rental income received from investment properties	1,048	31	1,079	952	27	979
Income from hotel operations	289	–	289	193	–	193
Property management fee income	25	–	25	36	–	36
Rental related income	78	–	78	68	–	68
	1,440	31	1,471	1,249	27	1,276
Others	27	–	27	31	–	31
Total	9,828	261	10,089	4,821	271	5,092

For management purposes, the Group is organised based on its business activities, which are broadly categorised into property development and property investment.

Principal activities of the two major reportable and operating segments are as follows:

Property development – development and sale of properties

Property investment – offices and retail shops letting, property management and hotel operations

Included in the Group's property sales of RMB8,361 million (2012: RMB3,541 million) is revenue arising from sales of residential properties of RMB4,897 million (2012: RMB3,177 million), commercial properties of RMB3,086 million (2012: RMB70 million) and others of RMB378 million (2012: RMB294 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2013

5. Turnover and Segmental Information (Continued)

For the year ended 31 December 2013

	Reportable segment				Consolidated RMB'million
	Property development RMB'million	Property investment RMB'million	Total RMB'million	Others RMB'million	
Segment Revenue					
Turnover of the Group	8,361	1,440	9,801	27	9,828
Share of turnover of associates	230	31	261	–	261
Total segment revenue	8,591	1,471	10,062	27	10,089
Segment Results					
Segment results of the Group	1,747	3,631	5,378	9	5,387
Interest income					229
Share of results of associates					(178)
Gain on disposal of subsidiaries					159
Finance costs, inclusive of exchange differences					(448)
Net unallocated expenses					(372)
Profit before taxation					4,777
Taxation					(2,072)
Profit for the year					2,705
Other Information					
Amounts included in the measure of segment profit or loss or segment assets:					
Capital additions of completed investment properties and property, plant and equipment	18	194	212	14	226
Development costs for investment properties under construction or development	–	5,629	5,629	–	5,629
Development costs for properties under development for sale	6,337	–	6,337	–	6,337
Depreciation of property, plant and equipment	66	111	177	15	192
Release of prepaid lease payments charged to profit or loss	–	2	2	–	2
Increase in fair value of investment properties	–	2,912	2,912	–	2,912
Financial Position					
Assets					
Segment assets	29,165	54,228	83,393	5	83,398
Interests in associates					1,086
Interests in joint ventures					25
Loans to associates					1,654
Loan to a joint venture					675
Amounts due from associates					564
Unallocated corporate assets					11,200
Consolidated total assets					98,602
Liabilities					
Segment liabilities	(9,721)	(1,167)	(10,888)	(2)	(10,890)
Unallocated corporate liabilities					(45,538)
Consolidated total liabilities					(56,428)

5. Turnover and Segmental Information (Continued)

For the year ended 31 December 2012

	Reportable segment			Others RMB'million	Consolidated RMB'million
	Property development RMB'million	Property investment RMB'million	Total RMB'million		
Segment Revenue					
Turnover of the Group	3,541	1,249	4,790	31	4,821
Share of turnover of associates	244	27	271	–	271
Total segment revenue	3,785	1,276	5,061	31	5,092
Segment Results					
Segment results of the Group	928	3,301	4,229	19	4,248
Interest income					181
Gain on acquisition of subsidiaries					50
Share of results of associates					82
Finance costs, inclusive of exchange differences					(459)
Net unallocated expenses					(384)
Profit before taxation					3,718
Taxation					(1,363)
Profit for the year					2,355
Other Information					
Amounts included in the measure of segment profit or loss or segment assets:					
Capital additions of completed investment properties and property, plant and equipment	58	4,918	4,976	495	5,471
Development costs for investment properties under construction or development and prepaid lease payments	–	4,904	4,904	–	4,904
Development costs for properties under development for sale	7,614	–	7,614	–	7,614
Depreciation of property, plant and equipment	63	100	163	13	176
Release of prepaid lease payments charged to profit or loss	–	2	2	–	2
Increase in fair value of investment properties	–	2,698	2,698	–	2,698
Financial Position					
Assets					
Segment assets	25,981	50,200	76,181	5	76,186
Interests in associates					1,264
Loans to associates					1,659
Amounts due from associates					484
Unallocated corporate assets					10,024
Consolidated total assets					89,617
Liabilities					
Segment liabilities	(6,900)	(736)	(7,636)	(2)	(7,638)
Amounts due to associates					(11)
Unallocated corporate liabilities					(44,700)
Consolidated total liabilities					(52,349)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

5. Turnover and Segmental Information (Continued)

Segment revenue represents the turnover of the Group and the share of turnover of associates.

Segment results represent the profit earned by each segment without allocation of central administration costs, Directors' salaries, interest income, gain on acquisition of subsidiaries, gain on disposal of subsidiaries, share of results of associates, finance costs and exchange differences. This is the measure reported to the chief operating decision makers who are the Executive Directors of the Company for the purpose of resource allocation and performance assessment.

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than interests in associates, interests in joint ventures, loans to associates, loan to a joint venture, amounts due from associates, amounts due from related companies, amounts due from non-controlling shareholders of subsidiaries, deferred tax assets, pledged bank deposits, restricted bank deposits, bank balances and cash and other unallocated corporate assets; and
- all liabilities are allocated to reportable segments other than amounts due to related companies, amounts due to associates, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries, tax liabilities, deferred tax liabilities, derivative financial instruments designated as hedging instruments, defined benefit liabilities, bank and other borrowings, convertible bonds, notes and other unallocated corporate liabilities.

Over 90% of the Group's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly, no analysis of geographical segment is presented.

No geographical segment information of the Group's non-current assets is shown as the assets are substantially located in the PRC.

During the year ended 31 December 2013, a customer contributed RMB1,680 million to the turnover of the Group in respect of the property development segment. No major customer contributed over 10% to the turnover of the Group during the year ended 31 December 2012.

6. Other Income

	2013 RMB'million	2012 RMB'million
Interest income from banks	93	78
Interest income from amounts due from associates (notes 17 and 40)	15	17
Interest income from loans to associates (notes 17 and 40)	50	38
Interest income from a related company (notes 22 and 40)	–	4
Imputed interest income from loans to associates (notes 17 and 40)	51	44
Interest income from loan to a joint venture (notes 18 and 40)	20	–
Sundry income	14	14
Grants received from local government	149	37
Gain on acquisition of subsidiaries (note 35(a))	–	50
Gain on disposal of subsidiaries (note 35(d))	159	–
Gain on disposal of investment properties	51	–
	602	282

7. Operating Profit

	2013 RMB'million	2012 RMB'million
Operating profit has been arrived at after charging (crediting):		
Auditor's remuneration	5	5
Depreciation of property, plant and equipment	193	177
Less: Amount capitalised to properties under development for sale	(1)	(1)
	192	176
Release of prepaid lease payments	13	14
Less: Amount capitalised to property, plant and equipment	(11)	(12)
	2	2
Loss on disposal of property, plant and equipment	-	1
Employee benefits expenses		
Directors' emoluments		
Fees	2	2
Salaries, bonuses and allowances	19	29
Retirement benefits costs	1	2
Share-based payment expenses	2	6
	24	39
Other staff costs		
Salaries, bonuses and allowances	463	404
Retirement benefits costs	36	27
Share-based payment expenses	9	12
	508	443
Total employee benefits expenses	532	482
Less: Amount capitalised to investment properties under construction or development, properties under development for sale and hotels under development	(149)	(146)
	383	336
Cost of properties sold recognised as an expense	6,049	2,178
Minimum lease payment under operating leases	43	43

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2013

8. Finance Costs, Inclusive of Exchange Differences

	2013 RMB'million	2012 RMB'million
Interest on bank and other borrowings		
– wholly repayable within five years	1,309	910
– not wholly repayable within five years	117	153
Interest on loans from non-controlling shareholders of subsidiaries wholly repayable within five years (note 25)	141	151
Imputed interest on loans from non-controlling shareholders of subsidiaries (note 25)	41	15
Interest on amount due to a related company (notes 22 and 40)	1	5
Interest on convertible bonds (note 29)	292	243
Interest on notes (note 30)	1,162	972
Net interest expense from cross currency swaps designated as cash flow hedges	23	–
Net interest expense from interest rate swaps designated as cash flow hedges	17	38
Total interest costs	3,103	2,487
Less: Amount capitalised to investment properties under construction or development, properties under development for sale and hotels under development	(2,500)	(2,002)
Interest expense charged to profit or loss	603	485
Net exchange gain on bank borrowings and other financing activities	(363)	(54)
Others	208	28
	448	459

Borrowing costs capitalised during the year which arose on the general borrowing pool of the Group were calculated by applying a capitalisation rate of approximately 8.5% (2012: 7.6%) per annum to expenditure on the qualifying assets.

9. Taxation

	2013 RMB'million	2012 RMB'million
PRC Enterprise Income Tax		
– Current provision	459	419
Deferred taxation (note 33)		
– Provision for the year	973	610
PRC Land Appreciation Tax		
– Provision for the year	640	334
	2,072	1,363

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

PRC Enterprise Income Tax has been provided for at the applicable income tax rate of 25% (2012: 25%) on the assessable profits of the companies in the Group during the year.

9. Taxation (Continued)

The PRC Enterprise Income Tax Law requires withholding tax to be levied on distribution of profits earned by PRC entities for profits generated after 1 January 2008 at rate of 5% for Hong Kong resident companies, and at rate of 10% for companies incorporated in BVI and Mauritius, which are the beneficial owners of the dividend received. As at 31 December 2013 and 31 December 2012, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2013 RMB'million	2012 RMB'million
Profit before taxation	4,777	3,718
PRC Enterprise Income Tax at 25% (2012: 25%)	1,194	930
PRC Land Appreciation Tax	640	334
Tax effect of PRC Land Appreciation Tax	(160)	(83)
Deferred tax provided for withholding tax on income derived in the PRC	43	(1)
Deferred tax provided for PRC Land Appreciation Tax in respect of investment properties	135	–
Tax effect of share of results of associates	45	(20)
Tax effect of expenses not deductible for tax purposes	338	293
Tax effect of income not taxable for tax purposes	(188)	(77)
Tax effect of tax losses not recognised	36	14
Tax effect of utilisation of tax losses previously not recognised	(11)	(27)
Tax charge for the year	2,072	1,363

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees

The emoluments paid or payable to the Directors of the Company were as follows:

Name of Director	notes	Performance related					Share-based payment expenses	2013 Total	2012 Total
		Fees	Salaries	Other benefits	incentive payments	Retirement benefit costs			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Mr. Vincent H.S. LO	(a)	-	-	-	-	-	-	-	
Mr. Freddy C.K. LEE	(b)	-	4,360	4,289	523	1,256	843	11,271	
Mr. Daniel Y.K. WAN	(a)	-	3,997	3,824	2,118	-	791	10,730	
Mr. Frankie Y.L. WONG	(c)	359	-	-	-	-	-	359	
Sir John R.H. BOND	(d)	319	-	-	-	-	-	319	
Dr. William K.L. FUNG	(d)	359	-	-	-	-	-	359	
Professor Gary C. BIDDLE	(d)	479	-	-	-	-	-	479	
Dr. Roger L. McCARTHY	(d)	319	-	-	-	-	-	319	
Mr. David J. SHAW	(d)	240	-	-	-	-	-	240	
Total for 2013		2,075	8,357	8,113	2,641	1,256	1,634	24,076	
Total for 2012		2,114	9,068	11,913	7,731	1,872	6,260	38,958	

Notes:

- (a) Executive Directors
- (b) Executive Director resigned on 10 January 2014
- (c) Non-executive Director
- (d) Independent Non-executive Directors

Mr. Freddy C.K. Lee was the Chief Executive of the Company before 10 January 2014 and his emoluments disclosed above included those for services rendered by him as the Chief Executive.

Of the five highest paid individuals in the Group, two (2012: two) are Executive Directors of the Company whose emoluments are set out above. The emoluments of the remaining three (2012: three) individuals are as follows:

	2013	2012
	RMB'million	RMB'million
Salaries	8	6
Other benefits	7	8
Performance related incentive payments	1	3
Retirement benefit costs	1	2
Share-based payment expenses	1	4
	18	23

The emoluments of the remaining highest paid employees were within the following bands:

	2013	2012
	Number of employees	Number of employees
Emolument bands		
HK\$7,000,001 – HK\$7,500,000	2	-
HK\$7,500,001 – HK\$8,000,000	1	-
HK\$8,000,001 – HK\$8,500,000	-	1
HK\$9,500,001 – HK\$10,000,000	-	1
HK\$10,500,001 – HK\$11,000,000	-	1
	3	3

No Directors waived any emoluments in the years ended 31 December 2013 and 31 December 2012.

11. Dividends

	2013 RMB'million	2012 RMB'million
Interim dividend paid in respect of 2013 of HK\$0.022 per share (2012: HK\$0.025 per share)	140	122
Final dividend proposed in respect of 2013 of HK\$0.04 per share (2012: HK\$0.035 per share)	253	223
	393	345

A final dividend for the year ended 31 December 2013 of HK\$0.04 (equivalent to RMB0.03) per share, amounting to HK\$320 million (equivalent to RMB253 million) in aggregate, was proposed by the Directors on 19 March 2014 and is subject to the approval of the shareholders at the forthcoming annual general meeting.

In September 2013, an interim dividend in respect of 2013 of HK\$0.022 (equivalent to RMB0.017) per share, amounting to HK\$176 million (equivalent to RMB140 million) in aggregate, was paid to the shareholders of the Company.

In May 2013, a final dividend in respect of 2012 of HK\$0.035 (equivalent to RMB0.028) per share, amounting to HK\$280 million (equivalent to RMB223 million) in aggregate, was approved by the shareholders of the Company at the annual general meeting on 29 May 2013 and was paid to the shareholders of the Company in June 2013.

In October 2012, an interim dividend in respect of 2012 of HK\$0.025 (equivalent to RMB0.021) per share, amounting to HK\$145 million (equivalent to RMB122 million) in aggregate was paid to the shareholders of the Company. The 2012 interim dividend was paid in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their dividend in new, fully paid shares in lieu of all or part of cash. 65.5% of the shareholdings elected to receive shares in lieu of cash dividends at share price of HK\$2.932 per share and accordingly, 33,360,452 new and fully paid ordinary shares of the Company were issued. These new ordinary shares rank pari passu to the existing shares of the Company.

In June 2012, a final dividend in respect of 2011 of HK\$0.10 (equivalent to RMB0.08) per share was approved by the shareholders of the Company at the annual general meeting on 7 June 2012. The 2011 final dividend was paid in July 2012 in the form of cash and/or shares of the Company as the shareholders were given option to receive their dividend in new, fully paid shares in lieu of all or part of cash. 70.5% of the shareholdings elected to receive shares in lieu of cash dividends at share price of HK\$3.176 per share and accordingly, 129,436,566 new and fully paid ordinary shares of the Company were issued. These new ordinary shares rank pari passu to the existing shares of the Company.

162,797,018 ordinary shares of the Company in aggregate were issued during the year ended 31 Decemeber 2012 on the shareholders' election to receive shares. Details of these shares issuance are set out in note 27.

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For the year ended 31 December 2013

12. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to shareholders of the Company is based on the following data:

Earnings

	2013 RMB'million	2012 RMB'million
Earnings for the purposes of basic earnings per share and diluted earnings per share, being profit for the year attributable to shareholders of the Company	2,125	2,029

Number of shares

	2013 RMB'million	2012 RMB'million (Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,491	6,350
Effect of dilutive potential shares:		
Convertible bonds	128	766
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,619	7,116
Basic earnings per share (note (c))	RMB0.28 HK\$0.35	RMB0.32 HK\$0.39
Diluted earnings per share (note (c))	RMB0.28 HK\$0.35	RMB0.29 HK\$0.36

Notes:

- (a) The weighted average number of ordinary shares for the purpose of basic earnings per share for 2013 and 2012 have been adjusted for the bonus element of the rights issue completed on 20 May 2013.
- (b) There are no dilution effects for share options granted as the exercise prices of these share options granted were higher than the average market price for 2013 and 2012.
- (c) The Hong Kong dollar figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.000 to HK\$1.253 for 2013 and RMB1.000 to HK\$1.229 for 2012, being the average exchange rates that prevailed during the respective years.

13. Investment Properties

	Completed investment properties RMB'million	Investment properties under construction or development at fair value RMB'million	Investment properties under construction or development at cost RMB'million	Total RMB'million
At 1 January 2012	17,981	9,927	8,487	36,395
Additions	3	1,981	2,734	4,718
Acquisition of subsidiaries (note 35(a))	2,676	189	–	2,865
Eliminated upon disposal	(24)	–	–	(24)
Transfers	–	1,432	(1,432)	–
Transfer upon completion	773	(773)	–	–
Transfer to property, plant and equipment (note 14)	(28)	–	–	(28)
Increase in fair value recognised in profit or loss	708	1,990	–	2,698
At 31 December 2012	22,089	14,746	9,789	46,624
At 31 December 2012				
– Stated at fair value	22,089	14,746	–	36,835
– Stated at cost	–	–	9,789	9,789
At 1 January 2013	22,089	14,746	9,789	46,624
Additions	29	3,764	1,865	5,658
Disposal of subsidiaries (note 35(d))	(4,300)	–	–	(4,300)
Eliminated upon disposal	(393)	–	–	(393)
Transfers	–	654	(654)	–
Transfer upon completion	10,753	(10,753)	–	–
Transfer from property, plant and equipment and prepaid lease payments	286	–	–	286
Transfer to property, plant and equipment (note 14)	(22)	–	–	(22)
Transfer to properties under development for sale (note 16)	–	–	(492)	(492)
Increase in fair value recognised in profit or loss	749	2,163	–	2,912
At 31 December 2013	29,191	10,574	10,508	50,273
At 31 December 2013				
– Stated at fair value	29,191	10,574	–	39,765
– Stated at cost	–	–	10,508	10,508

The investment properties are all situated in the PRC and held under long term leases of RMB6,588 million (2012: RMB5,786 million) and medium term leases of RMB43,685 million (2012: RMB40,838 million). All the completed investment properties are rented out under operating leases or are held for capital appreciation purposes.

During the year ended 31 December 2013, investment properties under construction or development with a carrying amount of RMB492 million are transferred to properties under development for sale upon the finalisation of development plan, where upon the Group has determined that the properties would be developed with a view to sale.

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13. Investment Properties (Continued)

The fair values of the Group's investment properties at 31 December 2013 and 31 December 2012, and at the dates of transfer upon completion of development of investment properties under construction or development, and at the dates of transfer from/ to property, plant and equipment and prepaid lease payments, have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuers not connected to the Group.

For completed investment properties, the valuations have been arrived at using direct comparison method and capitalisation of net income method, where appropriate. In the valuation, the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for the similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties.

For investment properties under construction or development that are measured at fair value, the valuations have been arrived at assuming that the investment properties will be completed in accordance with the development proposals and the relevant approvals for the proposals have been obtained. The key inputs in the valuations include the market value of the completed investment properties, which are estimated with reference to sales evidence of similar properties in the nearest locality, with adjustments made to account for differences in locations and other factors specific to the respective properties based on the valuers' judgement. Costs of development are also taken into account including construction costs, finance costs and professional fees, as well as developer's profit margin which reflects the remaining risks associated with the development of the properties at the valuation date and the return that the developer would require for bringing them to completion status, which is determined by the valuers based on its analyses of recent land transactions and market value of similar completed properties in the respective locations.

There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the management has taken into consideration the highest and best use of the properties.

The major inputs used in the fair value measurement of the Group's major investment properties as at 31 December 2013 are set out below:

Investment properties held by the Group in the consolidated statements of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value	Sensitivity
Completed investment properties located in Shanghai					
Completed investment property – Property I-1	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Daily market rent.	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 6.00% and 6.50% for retail and office portion, respectively. Daily market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, at an average of RMB15.5 per square metre ("sqm") per day on gross floor area basis.	The higher the capitalisation rate, the lower the fair value. The higher the daily market rent, the higher the fair value.	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa. A significant increase in the daily market rent used would result in a significant increase in fair value, and vice versa.

13. Investment Properties (Continued)

Investment properties held by the Group in the consolidated statements of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value	Sensitivity
Completed investment properties located in Shanghai (Continued)					
Completed investment property – Property I-2	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Daily Market rent.	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 6.25% and 8.25% for office and retail portion, respectively.	The higher the capitalisation rate, the lower the fair value.	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.
			Daily market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, at an average of RMB11.6 per sqm per day on lettable area basis.	The higher the daily market rent, the higher the fair value.	A significant increase in the daily market rent used would result in a significant increase in fair value, and vice versa.
Completed investment property – Property I-3	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Daily market rent.	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 6.50% and 8.00% for office and retail portion, respectively.	The higher the capitalisation rate, the lower the fair value.	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.
			Daily market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, at an average of RMB11.8 per sqm per day on gross floor area basis.	The higher the daily market rent, the higher the fair value.	A significant increase in the daily market rent used would result in a significant increase in fair value, and vice versa.
Completed investment property – Property I-4	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Daily market rent.	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 4.75% for retail area.	The higher the capitalisation rate, the lower the fair value.	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.
			Daily market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, at an average of RMB18.0 per sqm per day on lettable area basis.	The higher the daily market rent, the higher the fair value.	A significant increase in the daily market rent used would result in a significant increase in fair value, and vice versa.
Completed investment properties – Property I-5, I-6 and I-7	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Daily market rent.	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, ranging from 4.75% to 5.00% for office portion, and ranging from 7.25% to 7.50% for retail portion, respectively.	The higher the capitalisation rate, the lower the fair value.	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.
			Daily market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, ranging from RMB3.7 to RMB4.4 per sqm per day on gross floor area basis.	The higher the daily market rent, the higher the fair value.	A significant increase in the daily market rent used would result in a significant increase in fair value, and vice versa.
Completed investment property – Property I-8	Level 3	Comparison Approach The key input is: Market unit rate	Market unit rate, taking into account the time, location, and individual factors, such as frontage, levels and size, between the comparables and the property, of RMB43,500 per sqm and RMB32,000 per sqm for office and retail portion, respectively, both are on gross floor area basis.	The higher the market unit rate, the higher the fair value.	A significant increase in the market unit rate used would result in a significant increase in fair value, and vice versa.

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13. Investment Properties (Continued)

Investment properties held by the Group in the consolidated statements of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value	Sensitivity
Completed investment property located in Wuhan					
Completed investment property – Property II-1	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Daily market rent.	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 6.25% for retail area. Daily market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, at an average of RMB4.6 per sqm per day on lettable area basis.	The higher the capitalisation rate, the lower the fair value. The higher the daily market rent, the higher the fair value.	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa. A significant increase in the daily market rent used would result in a significant increase in fair value, and vice versa.
Completed investment property located in Foshan					
Completed investment property – Property III-1, comprising Phases 1 and 2	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Daily market rent.	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 4.50% for retail area. Daily market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, at an average ranging from RMB3.3 to RMB4.3 per sqm per day on gross floor area basis.	The higher the capitalisation rate, the lower the fair value. The higher the daily market rent, the higher the fair value.	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa. A significant increase in the daily market rent used would result in a significant increase in fair value, and vice versa.
Completed investment properties located in Chongqing					
Completed investment property – Property IV-1	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; and (2) Daily market rent.	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 4.75% for retail area. Daily market rent, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, at an average of RMB2.7 per sqm per day on lettable area basis.	The higher the capitalisation rate, the lower the fair value. The higher the daily market rent, the higher the fair value.	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa. A significant increase in the daily market rent used would result in a significant increase in fair value, and vice versa.
Completed investment property – Property IV-2	Level 3	Comparison Approach The key input is: Market unit rate	Market unit rate, taking into account the time, location, and individual factors, such as frontage, levels and size, between the comparables and the property, of RMB17,000 per sqm for office portion, and RMB15,000 per sqm for retail portion, both are on gross floor area basis, and RMB100,000 per unit for car park portion.	The higher the market unit rate, the higher the fair value.	A significant increase in the market unit rate used would result in a significant increase in fair value, and vice versa.

13. Investment Properties (Continued)

Investment properties held by the Group in the consolidated statements of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value	Sensitivity
Investment properties under construction or development that are measured at fair value located in Shanghai					
Investment property under construction or development that is measured at fair value – Property A-1	Level 3	Market-based Approach The key inputs are: (1) Gross development value; (2) Level adjustment; and (3) Developer's profit.	Gross development value on completion basis, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB5,002 million. Level adjustment on individual floor of retail portion of the property ranging from 50% to 70% on specific levels. Developer's profit, taking into account the comparable land transactions and progress of the property, of 4%.	The higher the gross development value, the higher the fair value. The higher the level adjustment, the lower the fair value. The higher the developer's profit, the lower the fair value.	A significant increase in gross development value used would result in a significant increase in fair value, and vice versa. A significant increase in level adjustment used would result in a significant decrease in fair value, and vice versa. A significant increase in developer's profit used would result in a significant decrease in fair value, and vice versa.
Investment property under construction or development that is measured at fair value – Property A-2	Level 3	Market-based Approach The key inputs are: (1) Gross development value; (2) Level adjustment; and (3) Developer's profit.	Gross development value on completion basis, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB5,954 million. Level adjustment on individual floor of retail portion of the property ranging from 60% to 90% on specific levels. Developer's profit, taking into account the comparable land transactions and progress of the property, of 4%.	The higher the gross development value, the higher the fair value. The higher the level adjustment, the lower the fair value. The higher the developer's profit, the lower the fair value.	A significant increase in gross development value used would result in a significant increase in fair value, and vice versa. A significant increase in level adjustment used would result in a significant decrease in fair value, and vice versa. A significant increase in developer's profit used would result in a significant decrease in fair value, and vice versa.

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13. Investment Properties (Continued)

Investment properties held by the Group in the consolidated statements of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value	Sensitivity
Investment property under construction or development that is measured at fair value located in Wuhan					
Investment property under construction or development that is measured at fair value – Property B-1	Level 3	Market-based Approach The key inputs are: (1) Gross development value; (2) Level adjustment; and (3) Developer's profit.	Gross development value on completion basis, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB2,889 million and RMB182 million for commercial portion and car park portion, respectively. Level adjustment on individual floor of retail portion of the property ranging from 50% to 90% on specific levels. Developer's profit, taking into account the comparable land transactions and progress of the property, of 10%.	The higher the gross development value, the higher the fair value. The higher the level adjustment, the lower the fair value. The higher the developer's profit, the lower the fair value.	A significant increase in gross development value used would result in a significant increase in fair value, and vice versa. A significant increase in level adjustment used would result in a significant decrease in fair value, and vice versa. A significant increase in developer's profit used would result in a significant decrease in fair value, and vice versa.
Investment property under construction or development that is measured at fair value located in Chongqing					
Investment property under construction or development that is measured at fair value – Property C-1	Level 3	Market-based Approach The key inputs are: (1) Gross development value; (2) Level adjustment; and (3) Developer's profit.	Gross development value on completion basis, taking into account the time, location, and individual factors, such as frontage and size, between the comparables and the property, of RMB9,026 million. Level adjustment on individual floor of retail portion of the property ranging from 75% to 95% on specific levels. Developer's profit, taking into account the comparable land transactions and progress of the property, of 13%.	The higher the gross development value, the higher the fair value. The higher the level adjustment, the lower the fair value. The higher the developer's profit, the lower the fair value.	A significant increase in gross development value used would result in a significant increase in fair value, and vice versa. A significant increase in level adjustment used would result in a significant decrease in fair value, and vice versa. A significant increase in developer's profit used would result in a significant decrease in fair value, and vice versa.

14. Property, Plant and Equipment

	Land and buildings	Hotel properties	Hotels under development	Furniture, fixtures, equipment and motor vehicles	Total
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
At Cost					
At 1 January 2012	465	91	533	283	1,372
Acquisition of subsidiaries (note 35(a))	456	1,826	–	34	2,316
Transfer from investment properties (note 13)	28	–	–	–	28
Transfer from properties under development for sales (note 16)	–	–	46	–	46
Transfer from properties held for sale	15	–	–	–	15
Transfer upon completion	–	623	(623)	–	–
Additions	34	–	343	99	476
Disposals	–	–	–	(11)	(11)
At 31 December 2012	998	2,540	299	405	4,242
Disposal of subsidiaries (note 35(d))	–	–	–	(6)	(6)
Transfer to investment properties	(245)	–	–	–	(245)
Transfer from investment properties (note 13)	22	–	–	–	22
Additions	–	–	159	38	197
Disposals	–	–	–	(3)	(3)
At 31 December 2013	775	2,540	458	434	4,207
Accumulated Depreciation					
At 1 January 2012	62	20	–	211	293
Charge for the year	31	85	–	61	177
Eliminated on disposals	–	–	–	(10)	(10)
At 31 December 2012	93	105	–	262	460
Disposal of subsidiaries (note 35(d))	–	–	–	(3)	(3)
Charge for the year	24	95	–	74	193
Eliminated on disposals	–	–	–	(1)	(1)
Transfer to investment properties	(19)	–	–	–	(19)
At 31 December 2013	98	200	–	332	630
Carrying Values					
At 31 December 2013	677	2,340	458	102	3,577
At 31 December 2012	905	2,435	299	143	3,782

The carrying amounts of owner-occupied leasehold land and buildings of RMB627 million (2012: RMB628 million), hotel properties of RMB2,273 million (2012: RMB2,367 million) and hotels under development of RMB44 million (2012: RMB41 million) at the end of the reporting period included both the leasehold land and building elements in property, plant and equipment, as in the opinion of the Directors, allocations of the carrying amounts between the leasehold land and buildings elements could not be made reliably.

The land and buildings, hotel properties and hotels under development are all situated in the PRC and held under long term leases of RMB51 million (2012: RMB54 million) and medium term leases of RMB3,424 million (2012: RMB3,585 million).

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14. Property, Plant and Equipment (Continued)

The above items of property, plant and equipment, except for hotels under development, are depreciated on a straight-line basis at the following rates per annum:

Land and buildings	Over the shorter of the term of the lease, or 50 years
Hotel properties	Over the shorter of the term of the lease, or 50 years
Furniture, fixtures, equipment and motor vehicles	20% to 33-1/3%

15. Prepaid Lease Payments

	2013 RMB'million	2012 RMB'million
At beginning of the year	671	500
Transfer (to) from properties under development for sale (note 16)	(43)	185
Transfer to investment properties	(29)	-
Release for the year (note 7)	(13)	(14)
At end of the year	586	671

The cost of prepaid lease payments represents the amount paid to the government of the PRC in respect of the land use rights held under medium term leases.

16. Properties Under Development for Sale

	2013 RMB'million	2012 RMB'million
At beginning of the year	20,150	17,247
Additions	6,337	7,614
Transfer to property, plant and equipment (note 14)	-	(46)
Transfer from (to) prepaid lease payments (note 15)	43	(185)
Transfer from investment properties (note 13)	492	-
Transfer to properties held for sale	(4,311)	(4,480)
At end of the year	22,711	20,150

The properties under development are all situated in the PRC and held under long term leases of RMB21,517 million (2012: RMB18,734 million) and medium term leases of RMB1,194 million (RMB1,416 million).

Included in the properties under development for sale as at 31 December 2013 is carrying value of RMB14,839 million (2012: RMB16,936 million) which represents the carrying value of the properties expected to be completed after twelve months from the end of the reporting period.

17. Interests in Associates/Loans to Associates/Amounts Due from Associates/Amounts Due to Associates

	Notes	2013 RMB'million	2012 RMB'million
Cost of investments, unlisted		482	482
Share of post-acquisition profits		604	782
		1,086	1,264
Loans to associates			
– Interest free	(a)	743	727
– Interest bearing ranging from 5% to 6.15% (2012: 5% to 6.15%) per annum	(b)	911	932
		1,654	1,659
Amounts due from associates	(c)	564	484
Amounts due to associates	(d)	–	11

Notes:

- (a) These loans to associates represent the loans to subsidiaries of Richcoast, an associate of the Group, for financing the development and operation of Dalian Tiandi project in Dalian, the PRC. The Dalian Tiandi project is an integrated mixed-use development in Dalian and it comprises office, retail, residential and hotel/service apartment. The principal activities of Richcoast are strategic to the Group's activities as the Group has determined to conduct its property development activities in Dalian through its strategic investment in Richcoast. Pursuant to the joint venture agreement ("Joint Venture Agreement") dated 25 May 2007 entered into among the three shareholders of Richcoast, being Innovate Zone Group Limited ("Innovate Zone"), an indirect subsidiary of the Company, Main Zone Group Limited ("Main Zone"), a direct wholly-owned subsidiary of SOCAM Development Limited ("SOCAM", an associate of SOCL) and Many Gain International Limited ("Many Gain"), an independent third party, the loans are unsecured, interest-free and with no fixed terms of repayment until Many Gain has contributed its share of the shareholder's loan to the subsidiaries of Richcoast. Thereafter, the loans will bear interest at a rate of 5% per annum, subject to shareholders' approval. The loans are carried at amortised cost using the effective interest rate of 7.29% (2012: 7.29%) per annum.
- (b) These loans to associates, represent the loans to subsidiaries of Richcoast, are unsecured, carries interest at rates ranging from 5% to 6.15% (2012: 5% to 6.15%) per annum and with no fixed terms of repayment.
- (c) The amounts due from associates are unsecured, interest free and repayable on demand, except for an amount of RMB310 million (2012: RMB238 million), which carries interest at rate of 6.6% (2012: 6.1%) per annum.
- (d) The amounts due to associates are unsecured, interest free and repayable on demand.

Particulars of the Group's principal associates at 31 December 2013 and 31 December 2012 are as follows:

Name of associate	Form of legal entity	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Group	Place of incorporation/ registration and operations	Principal activities
Richcoast (notes 1 and 2)	Sino-Foreign Joint Venture	61.54%	British Virgin Islands ("BVI")	Investment holding
Dalian Qiantong Science & Technology Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Ruisheng Software Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Delan Software Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Jiadao Science & Technology Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Software Park Shuion Fazhan Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Software Park Shuion Kaifa Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development

Notes:

- Pursuant to the terms of the Joint Venture Agreement, the Board of Directors of Richcoast consists of four representatives designated by Innovate Zone, three representatives designated by Main Zone, and three representatives by Many Gain. The Board is responsible for managing the business and affairs of the Richcoast Group, establishing the strategic direction, policies of, and operating procedures of the Richcoast Group, and shall decide on matters by a simple majority vote. Accordingly, the Group has significant influence over Richcoast by virtue of its contractual right to appoint four out of ten Directors to the Board of Richcoast.
- Pursuant to the Joint Venture Agreement dated 25 May 2007 entered into among Innovate Zone, Main Zone and Many Gain, whereby the parties agreed to form a joint venture company, Richcoast, which is owned 61.54%, 28.20% and 10.26% by Innovate Zone, Main Zone and Many Gain, respectively, for the development and operation of Dalian Tiandi project.
- These companies are non-wholly owned subsidiaries of Richcoast.

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17. Interests in Associates/Loans to Associates/Amounts Due from Associates/Amounts Due to Associates (Continued)

The summarised consolidated financial information of Richcoast, which is prepared in accordance with IFRSs, is set out below:

	2013 RMB'million	2012 RMB'million
Current assets	5,102	4,949
Non-current assets	7,761	7,441
Current liabilities	4,678	4,589
Non-current liabilities	5,671	4,904

The above amounts of assets and liabilities include the following:

	2013 RMB'million	2012 RMB'million
Current assets		
Properties under development for sales	3,837	3,573
Properties held for sales	357	540
Bank balances and cash	307	280
Non-current assets		
Investment properties	7,127	6,921
Current liabilities		
Bank borrowings – due within one year	1,162	1,543
Non-current liabilities		
Bank borrowings – due after one year	2,272	1,375
Loans from shareholders	2,630	2,699

	2013 RMB'million	2012 RMB'million
Revenue	543	565
(Loss) profit and total comprehensive (expense) income for the year	(383)	170
Attributable to:		
Shareholders of Richcoast	(289)	133
Non-controlling interests	(94)	37
	(383)	170

The above (loss) profit and total comprehensive (expense) income for the year include the following:

	2013 RMB'million	2012 RMB'million
Increase in fair value of investment properties	97	245
Impairment loss on properties under development for sales	(342)	–

17. Interests in Associates/Loans to Associates/Amounts Due from Associates/Amounts Due to Associates (Continued)

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interests in associates recognised in the consolidated financial statements:

	2013 RMB'million	2012 RMB'million
Total assets and liabilities of Richcoast	2,514	2,897
Less: Non-controlling interests in Richcoast	(749)	(843)
Equity attributable to shareholders of Richcoast	1,765	2,054
Proportion of the Group's ownership interest in Richcoast	61.54%	61.54%
Carrying amount of the Group's interest in Richcoast	1,086	1,264

18. Interests in Joint Ventures/Amount Due from a Joint Venture/Loan to a Joint Venture

	Notes	2013 RMB'million	2012 RMB'million
Cost of investment, unlisted		25	–
Share of post-acquisition results		–	–
		25	–
Loan to a joint venture	(a)	675	–
Amount due from a joint venture	(b)	11	11
Less: Allowance		(11)	(11)
		–	–

Notes:

- (a) The loan to a joint venture represents a loan to Shanghai Yong Lin Investment Management Limited ("Shanghai Yong Lin"), and is unsecured, carries interest at the People's Bank of China ("PBOC") Prescribed Interest Rate per annum and repayable by instalments which falls due from the year 2015 to 2018.
- (b) The amount due from a joint venture is unsecured, interest free and repayable on demand.

Particulars of the Group's joint ventures at 31 December 2013 and 31 December 2012 are as follows:

Name of joint venture	Form of legal entity	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Group		Place of incorporation/ registration and operations	Principal activities
		2013	2012		
Crystal Jade Food and Beverage (Hangzhou) Limited	Limited liability company	50%	50%	Hong Kong	Investment holding
Shanghai Li Xing Hotel Co., Limited ("Shanghai Li Xing")	Sino-Foreign Joint Venture	50%	50%	PRC	Investment holding
上海永麟投資管理有限公司 Shanghai Yong Lin Investment Management Limited#	Sino-Foreign Joint Venture	19.8%*	–	PRC	Property management

* Pursuant to the memorandum and articles of association of Shanghai Yong Lin, the Group and the other equity owner (the "JV Partner", an independent third party which owns 80.2% equity interest in Shanghai Yong Lin) are considered to have joint control over Shanghai Yong Lin as certain major decisions require unanimous consent of the Group and the JV Partner. These major decisions relate to the relevant activities of Shanghai Yong Lin. Shanghai Yong Lin is principally engaged in the property management activities in respect of relocation activities in Shanghai. Its principal activities are considered as strategic to the Group's activities as the relocation activities are carried out in the vicinity of one of the Group's property projects.

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18. Interests in Joint Ventures/Amount Due from a Joint Venture/Loan to a Joint Venture (Continued)

The summarised consolidated financial information of Shanghai Yong Lin, which is prepared in accordance with IFRSs, is set out below:

	2013 RMB'million	2012 RMB'million
Current assets	2,136	–
Non-current assets	1	–
Current liabilities	1	–
Non-current liabilities	2,011	–

The above amounts of assets and liabilities include the following:

	2013 RMB'million	2012 RMB'million
Current assets		
Prepayment of relocation costs	2,075	–
Bank balances and cash	30	–
Non-current liabilities		
Bank borrowings – due after one year	1,336	–
Loans from shareholders	675	–

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interests in joint ventures recognised in the consolidated financial statements:

	2013 RMB'million	2012 RMB'million
Total assets and liabilities of Shanghai Yong Lin	125	–
Proportion of the Group's ownership interest in Shanghai Yong Lin	19.8%	–
Carrying amount of the Group's interest in Shanghai Yong Lin	25	–

19. Accounts Receivable, Deposits and Prepayments

	2013	2012
	RMB'million	RMB'million
Non-current accounts receivable comprise:		
Rental receivables in respect of rent-free periods	96	102
Trade receivables	75	–
	171	102
Current accounts receivable comprise:		
Trade receivables	561	316
Prepayments of relocation costs (note)	3,677	1,695
Other deposits, prepayments and receivables	828	595
	5,066	2,606

Note:

The balance represents the amounts that will be capitalised to properties under development for sale as soon as the relocation has been completed, and such relocation process is in accordance with the Group's normal operating cycle. The balance is not expected to be realised within twelve months from the end of the reporting period.

Trade receivables comprise:

- (i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the relevant sales and purchase agreements; and
- (ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants.

Included in the Group's accounts receivable, deposits and prepayments are trade receivable balances of RMB636 million (2012: RMB316 million), of which 67% (2012: 71%) are aged less than 90 days, and 33% (2012: 29%) are aged over 180 days, based on the dates on which revenue was recognised.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB45 million (2012: RMB13 million) which are past due at the end of the reporting period for which the Group has not provided for impairment loss, of which 84% (2012: 54%) are past due within 90 days, and 16% (2012: 46%) are past due over 90 days, based on the repayment terms set out in the sales and purchase agreements or debit notes to the tenants. No provision for impairment is considered necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the date of the reporting period. Allowance for bad and doubtful debts are generally not required for rental receivables as the Group has collected rental deposits from the tenants to secure any potential losses from uncollectible debts.

20. Pledged Bank Deposits/Restricted Bank Deposits/Bank Balances

Pledged bank deposits represent deposits pledged to banks to secure the banking facilities granted to the Group. Deposits amounting to RMB2,747 million (2012: RMB1,720 million) have been pledged to secure long-term bank loans and are therefore classified as non-current assets.

Bank balances carry interest at market rates which range from 0.35% to 1.35% (2012: 0.35% to 1.35%) per annum. Pledged bank deposits carry interest at fixed rates which range from 0.35% to 1.35% (2012: 0.35% to 1.35%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Restricted bank deposits of RMB1,231 million (2012: RMB183 million) represent deposits placed by the Group with banks which can only be applied to designated property development projects of the Group. Restricted bank deposits carry interest at market rates which range from 0.35% to 1.35% (2012: 0.35% to 1.35%) per annum.

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For the year ended 31 December 2013

21. Properties Held for Sale

The Group's properties held for sale are situated in the PRC. All the properties held for sale are stated at cost.

22. Amounts Due from/to Related Companies

At 31 December 2013, the amounts due from related companies are unsecured, interest free and repayable on demand. At 31 December 2012, the amounts due from related companies were unsecured, interest free and repayable on demand, except for an amount of RMB76 million which was unsecured, carried interest ranging from 6.1% to 6.6% per annum and fully repaid during the year ended 31 December 2013.

At 31 December 2013, the amounts due to related companies are unsecured, interest free and repayable on demand. At 31 December 2012, the amounts due to related companies were unsecured, interest free and repayable on demand, except for an amount of RMB100 million which was unsecured, carried interest at 6.1% per annum and fully repaid during the year ended 31 December 2013.

Related companies are subsidiaries of SOCL other than the Group, or associates of SOCL.

23. Amounts Due from/to Non-Controlling Shareholders of Subsidiaries

At 31 December 2013, the amounts due from non-controlling shareholders of subsidiaries are unsecured, interest free and repayable on demand, except for an amount of RMB31 million which is unsecured, carries interest at 6.6% per annum and is repayable within one year from the end of the reporting period.

At 31 December 2012, the amounts due from non-controlling shareholders of subsidiaries were unsecured, interest free and repayable on demand, except for an amount of RMB31 million which was unsecured, carried interest at 6.6% per annum, and an amount of RMB22 million which was unsecured, carried interest at 7.2% per annum.

The amounts due to non-controlling shareholders of subsidiaries are unsecured, interest free and repayable on demand.

24. Accounts Payable, Deposits Received and Accrued Charges

	2013 RMB'million	2012 RMB'million
Trade payables	3,466	2,568
Retention payables (note)	458	448
Deed tax, business tax and other tax payables	355	325
Deposits received and receipt in advance from property sales	5,805	3,551
Deposits received and receipt in advance in respect of rental of investment properties	396	324
Deposit received in respect of partial disposal of equity interests in subsidiaries	–	352
Accrued charges	566	335
	11,046	7,903

Note:

Retention payables are expected to be paid upon the expiry of the retention periods according to the respective contracts.

Included in the Group's accounts payable, deposits received and accrued charges are trade payable balances of RMB3,466 million (2012: RMB2,568 million), of which 76% (2012: 95%) are aged less than 30 days, 19% (2012: 1%) are aged between 31 to 60 days, 1% (2012: 1%) are aged between 61 days to 90 days, and 4% (2012: 3%) are aged more than 90 days, based on invoice date.

25. Loans from Non-Controlling Shareholders of Subsidiaries

The carrying amounts of the loans from non-controlling shareholders of subsidiaries are analysed as follows:

Denominated in	Interest rate per annum	2013	2012
		RMB'million	RMB'million
RMB	110% (2012: 110%) of PBOC Prescribed Interest Rate (note (a))	1,648	1,648
HK\$	Interest free (notes (a) and (b))	540	406
United States dollars ("US\$")	110% (2012: 110%) of PBOC Prescribed Interest Rate (note (a))	417	430
		2,605	2,484

Notes:

(a) The loans are unsecured and will not be demanded for payment until the Group's subsidiaries are in a position to repay the loans, which are to be mutually agreed between both parties. The Directors are of the opinion that the loans are not repayable in the next twelve months from the end of the reporting period.

(b) The principal amounts of the loans are RMB644 million (2012: RMB456 million). The loans are carried at amortised cost at an effective interest rate of 7.0% (2012: 6.7%) per annum.

26. Bank and Other Borrowings

	2013	2012
	RMB'million	RMB'million
Bank borrowings repayable within a period of:		
– Not more than 1 year or on demand	6,280	5,103
– More than 1 year, but not exceeding 2 years	8,234	3,867
– More than 2 years, but not exceeding 5 years	8,097	8,623
– More than 5 years	893	1,210
	23,504	18,803
Other borrowings repayable within a period of:		
– Not more than 1 year or on demand	35	–
– More than 1 year, but not exceeding 2 years	55	–
– More than 2 years, but not exceeding 5 years	772	–
	862	–
Total bank and other borrowings	24,366	18,803
Less: Amount due within one year shown under current liabilities	(6,315)	(5,103)
Amount due after one year	18,051	13,700

The carrying amounts of the Group's bank and other borrowings are analysed as follows:

Denominated in	Interest rate	2013	2012
		RMB'million	RMB'million
RMB	90% to 140% (2012: 90% to 140%) of PBOC Prescribed Interest Rate	13,774	9,735
HK\$	Hong Kong Interbank Offered Rates ("HIBOR") plus 1.5% to 4.75% (2012: HIBOR plus 1.5% to 4.6%)	7,906	6,561
US\$	Singapore Interbank Offered Rates ("SIBOR") plus 2.75% to 3.5% (2012: SIBOR plus 2.75% to 3.5%)	244	377
US\$	London Interbank Offered Rates ("LIBOR") plus 2.5% to 4.75% (2012: LIBOR plus 3.1% to 4.6%)	2,442	2,130
		24,366	18,803

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26. Bank and Other Borrowings (Continued)

As at 31 December 2013, the weighted average effective interest rate on the bank and other borrowings was 6.0% (2012: 5.6%), and are further analysed as follows:

	2013	2012
Denominated in RMB	7.2%	7.0%
Denominated in HK\$	4.4%	4.0%
Denominated in US\$	4.2%	4.3%

The bank and other borrowings at the end of the reporting period are secured by the pledge of assets as set out in note 37.

27. Share Capital

	Authorised		Issued and fully paid	
	Number of shares	US\$'000	Number of shares	US\$'000
Ordinary shares of US\$0.0025 each				
At 1 January 2012	12,000,000,000	30,000	5,211,587,981	13,029
Issue of shares in lieu of cash dividends (note 11)	–	–	162,797,018	407
Issue of new shares for the acquisition of equity interests in subsidiaries (note 35(a))	–	–	626,909,643	1,567
At 31 December 2012	12,000,000,000	30,000	6,001,294,642	15,003
Issue of shares under rights issue (note)	–	–	2,000,431,547	5,001
At 31 December 2013	12,000,000,000	30,000	8,001,726,189	20,004

	2013	2012
	RMB'million	RMB'million
Shown in the consolidated statement of financial position as	145	114

Note:

On 20 May 2013, the Company completed the rights issue by issuing 2,000,431,547 rights shares on the basis of one rights share for every three existing shares, at a subscription price of HK\$1.84 per rights share ("Rights Issue"). The cash proceeds of approximately HK\$3,681 million (equivalent to RMB2,937 million), before share issue expenses of HK\$48 million (equivalent to RMB38 million), are used to finance the land relocation, repayment of existing debts, and for general working capital of the Group. These shares rank pari passu with the then existing shares in issue in all aspects.

28. Reserves

(a) Merger reserve represents the aggregate of:

- (i) the difference between the nominal value of the share capital and share premium on the shares issued by the Company and the aggregate of the share capital and share premium of the holding companies of the subsidiaries acquired;
- (ii) the share of profit attributable to the deemed non-controlling shareholders exchanged upon the group reorganisation in 2004; and
- (iii) the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from a non-controlling shareholder upon the group reorganisation in 2004.

(b) Special reserve comprise:

The difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from non-controlling shareholders, which will be recognised in the profit or loss upon the earlier of the disposal of the assets, disposal of the subsidiary of the assets which the assets relate, or when the related assets affect profit or loss.

28. Reserves (Continued)

(c) Other reserves comprise:

- (i) An amount of RMB483 million, which represents payable waived in 2004 by Shui On Investment Company Limited ("SOI", a shareholder of the Company, which is wholly owned by SOCL), in respect of development costs of the same amount originally paid by Shanghai Shui On Property Development Management Co., Ltd., a fellow subsidiary of SOI, and recharged to certain subsidiaries of the Company.
- (ii) Capital contribution of RMB21 million arising on the fair value adjustments at the initial recognition of an interest free loan advanced by a non-controlling shareholder of a subsidiary in 2005.
- (iii) Non-distributable reserve of RMB99 million arising from the capitalisation of retained earnings as registered capital of a subsidiary in the PRC in 2006.
- (iv) An amount of RMB34 million recognised in the year ended 31 December 2010, which represents the difference between the fair value of the consideration paid and the carrying amount of the net assets attributable to the additional interest of 16.8% in Yang Pu Centre Development Co., Ltd. being acquired from the non-controlling interests in 2010.
- (v) An amount of RMB188 million recognised against the other reserve in the year ended 31 December 2012, which represents the Group's share of additional interest of 4.81% in carrying amount of the net assets of Foresight Profits Limited ("Foresight"). The Group acquired the additional interest through capital injection in Foresight.
- (vi) An amount of RMB138 million recognised in the year ended 31 December 2012, which represents the difference between the fair value of the consideration received and the carrying amount of the net assets attributable to the partial disposal of equity interests of 49% in Glory Land Limited ("Glory Land").
- (vii) An amount of RMB52 million recognised in the year ended 31 December 2013, which represents the difference between the fair value of the consideration paid and the carrying amount of the net assets attributable to the additional interest in Shanghai Bai-Xing Properties Co., Ltd. ("Bai-Xing"), Shanghai Ji-Xing Properties Co., Ltd. ("Ji-Xing"), Shanghai Tai Ping Qiao Properties Management Co., Ltd. ("TPQM"), Shanghai Xin-tian-di Plaza Co., Ltd. ("XTD Plaza"), Shanghai Xing Bang Properties Co., Ltd. ("Xing Bang"), Shanghai Xing-Qi Properties Co., Ltd. ("Xing-Qi").
- (viii) An amount of RMB84 million recognised in the year ended 31 December 2013, which represents the difference between the fair value of the consideration received and the carrying amount of the net assets attributable to the partial disposal of equity interests of 49% in Value Land Limited ("Value Land").

29. Convertible Bonds

On 29 September 2010, the Company issued RMB denominated US\$ settled 4.5% convertible bonds with the aggregate principal amount of RMB2,720 million with initial conversion price of HK\$4.87 at a fixed exchange rate of RMB1.00 to HK\$1.1439. An adjustment had been made to the conversion price from HK\$4.87 to HK\$3.88 as a result of the dividends paid and Rights Issue since the convertible bonds were issued.

Conversion may occur at any time between 10 November 2010 and 19 September 2015. The Company will, at the option of the holder of the bonds, be required to redeem all or some only of such holder's bonds on 29 September 2013 at an amount equal to the US\$ equivalent of their RMB principal amount, together with accrued but unpaid interest.

If the bonds have not been converted or redeemed by the date of maturity, they will be redeemed at an amount equal to the US\$ equivalent of their RMB principal amount, together with accrued but unpaid interest.

The Company may at any time after 29 September 2013 redeem all, but not some only, of the bonds for the time being outstanding at the US\$ equivalent of their RMB principal amount, together with interest accrued to the date fixed for redemption, provided that the closing price of the shares of the Company translated into RMB at the prevailing rate applicable to the relevant trading day, for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is published was at least 130% of the conversion price then in effect, translated into RMB at the fixed rate of RMB1.00 = HK\$1.1439.

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29. Convertible Bonds (Continued)

The Company may at any time redeem all, but not some only, of the bonds being outstanding at a redemption price equal to the US\$ equivalent of their RMB principal amount, together with accrued but unpaid interest to the date fixed for redemption, if prior to the date of notice at least 90% in RMB principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.

The convertible bonds contain two components: equity and liability elements. The equity element is presented in equity heading "convertible bond equity reserve". The fair value of the liability component at inception date is determined based on the valuation carried out by an independent valuer and the effective interest rate of the liability component on initial recognition is 10.7% per annum.

During the year ended 31 December 2013, the Company repurchased a total principal amount of RMB80 million of the convertible bonds. In addition, on 29 September 2013, certain bondholders exercised their rights to redeem a total principal amount of RMB2,207 million of the convertible bonds. The loss on remeasurement of the carrying amount of the liability component of the convertible bonds repurchased and redeemed amounted to RMB166 million and is recognised in finance costs.

The redeemed and repurchased convertible bonds were subsequently cancelled. Accordingly, an amount of RMB509 million was transferred from convertible bond equity reserve to retained earnings.

The convertible bonds outstanding at 31 December 2013 are classified under non-current liabilities in accordance with their maturity date which is on 19 September 2015 as the holders' right to redeem on 29 September 2013 had lapsed.

The movement of the liability component of the convertible bonds for the year is set out below:

	2013 RMB'million	2012 RMB'million
At 1 January	2,346	2,225
Interest charged during the year	292	243
Less: Interest paid	(122)	(122)
Less: Repurchase during the year	(72)	–
Less: Redemption during the year	(2,049)	–
At 31 December	395	2,346
Less: Amount due within one year shown under current liabilities	–	(2,346)
Amount due after one year	395	–

30. Notes

	2013 RMB'million	2012 RMB'million
At 1 January	13,519	6,520
Issue of senior notes	–	6,952
Expenses on issue of senior notes	–	(137)
Interest charged during the year	1,162	972
Less: Interest paid	(1,106)	(794)
Less: Repayment of senior notes	(3,000)	–
Exchange translation	(245)	6
At 31 December	10,330	13,519
Less: Amount due within one year shown under current liabilities	–	(2,980)
Amount due after one year	10,330	10,539

30. Notes (Continued)

On 23 December 2010, Shui On Development (Holding) Limited (“SOD”) issued RMB3,000 million senior notes to independent third parties with a maturity of three years due on 23 December 2013 (the “2013 RMB notes”). The 2013 RMB notes are denominated in RMB and settled in US\$, and bear coupon at 6.875% per annum payable semi-annually in arrears. The 2013 RMB notes are fully repaid during the current year.

On 26 January 2011, SOD further issued RMB3,500 million senior notes to independent third parties with a maturity of four years due on 26 January 2015 (the “2015 RMB notes”). The 2015 RMB notes are denominated in RMB and settled in US\$, and bear coupon at 7.625% per annum payable semi-annually in arrears.

On 26 January 2012, Shui On Development (Singapore) Pte. Ltd. (“SODSG”), a wholly-owned subsidiary of the Company, issued Singapore dollar (“SGD”) 250 million (equivalent to RMB1,241 million) senior notes to independent third parties with a maturity of three years due on 26 January 2015 (the “2015 SGD notes”). The 2015 SGD notes are denominated and settled in Singapore dollar, and bear coupon at 8% per annum payable semi-annually in arrears.

On 16 February 2012 and 29 February 2012, SOD issued US\$400 million (equivalent to RMB2,520 million) senior notes and US\$75 million (equivalent to RMB472 million) senior notes, respectively, to independent third parties with a maturity of three years due on 16 February 2015 (the “2015 US\$ notes”). The 2015 US\$ notes are denominated and settled in US\$, and bear coupon at 9.75% per annum payable semi-annually in arrears.

On 6 August 2012, SOD further issued US\$400 million senior notes at 102.785% of the principal amount plus accrued interest from 16 February 2012 to 6 August 2012 (“Additional notes”) (equivalent to RMB2,719 million) to independent third parties. These Additional notes consolidate and form a single class with the 2015 US\$ notes and have the same term and maturity date of 16 February 2015. These Additional notes are denominated in US\$, and bear coupon at 9.75% per annum payable semi-annually in arrears.

The principal terms of the notes

The 2013 RMB notes were:

- (a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the notes;
- (b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);
- (c) guaranteed by the Company on a senior basis;
- (d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security therefore; and
- (e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2013 RMB notes, SOD may at its option redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes redeemed plus the applicable premium (see definition below) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2013 RMB notes. In the opinion of the Directors, the fair value of the option to early redeem the 2013 RMB notes is insignificant at initial recognition and at the end of the reporting period.

At any time on or before all the 2013 RMB notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to the shareholders’ after taking into account certain adjustments prescribed in the terms of the 2013 RMB notes.

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30. Notes (Continued)

The principal terms of the notes (Continued)

The 2015 RMB notes were:

- (a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the notes;
- (b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);
- (c) guaranteed by the Company on a senior basis;
- (d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security therefore; and
- (e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2015 RMB notes, SOD may at its option redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes redeemed plus the applicable premium (see definition below) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2015 RMB notes. In the opinion of the Directors, the fair value of the option to early redeem the 2015 RMB notes is insignificant at initial recognition and at the end of the reporting period.

At any time on or before all the 2015 RMB notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to the shareholders' after taking into account certain adjustments prescribed in the terms of the 2015 RMB notes.

The 2015 SGD notes were:

- (a) senior in right of payment to any existing and future obligations of SODSG expressly subordinated in right of payment to the 2015 SGD notes;
- (b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SODSG (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);
- (c) guaranteed by the Company on a senior basis;
- (d) effectively subordinated to the secured obligations (if any) of the Company, SOD and SODSG, to the extent of the value of the assets serving as security thereof; and
- (e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2015 SGD notes, SODSG may at its option redeem the 2015 SGD notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2015 SGD notes redeemed plus the applicable premium (see definition below) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SODSG, and the trustee of the 2015 SGD notes. In the opinion of the Directors, the fair value of the option to early redeem the 2015 SGD notes is insignificant at initial recognition and at the end of the reporting period.

30. Notes (Continued)

The principal terms of the notes (Continued)

At any time on or before all the notes or 2015 SGD notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to shareholders after taking into account certain adjustments prescribed in the terms of the notes and 2015 SGD notes.

“Applicable Premium” for the 2013 RMB notes, 2015 RMB notes and 2015 SGD notes means with respect to the notes at any redemption date, the greater of (1) 1.00% of the principal amount of the notes and (2) the excess of (A) the present value at such redemption date of (i) the redemption amount of the notes, plus (ii) all required remaining scheduled interest payments due on the notes through the maturity date of the notes (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to 2.5%, over (B) the principal amount of the notes on such redemption date.

The 2015 US\$ notes were:

- (a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the 2015 US\$ notes;
- (b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);
- (c) guaranteed by the Company on a senior basis;
- (d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security thereof; and
- (e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2015 US\$ notes, SOD may at its option redeem the 2015 US\$ notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2015 US\$ notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2015 US\$ notes. In the opinion of the Directors, the fair value of the option to early redeem the 2015 US\$ notes is insignificant at initial recognition and at the end of the reporting period.

At any time on or before all the notes or 2015 US\$ notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to shareholders after taking into account certain adjustments prescribed in the terms of the notes and 2015 US\$ notes.

“Applicable Premium” means with respect to the 2015 US\$ notes at any redemption date, the greater of (1) 1.00% of the principal amount of the 2015 US\$ notes and (2) the excess of (A) the present value at such redemption date of (i) the redemption amount of the 2015 US\$ notes, plus (ii) all required remaining scheduled interest payments due on the 2015 US\$ notes through the maturity date of the 2015 US\$ notes (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the adjusted treasury rate plus 100 basis points, over (B) the principal amount of the 2015 US\$ notes on such redemption date.

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31. Perpetual Capital Securities

On 4 December 2012, SOD issued US\$500 million (equivalent to RMB3,137 million) 10.125% guaranteed perpetual capital securities ("Perpetual Capital Securities") at an issue price of 100% of the principal amount. The Perpetual Capital Securities were issued for general corporate funding purposes and were guaranteed by the Company on a senior basis for the due payment of all sums which may be payable by SOD under the Perpetual Capital Securities. Distributions on the Perpetual Capital Securities are paid semi-annually in arrears from 10 June 2013 and can be deferred at the discretion of SOD. The Perpetual Capital Securities have no fixed maturity and are redeemable at SOD's option on or after 10 December 2017 at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company and SOD cannot declare or, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank, which includes the ordinary shares of the Company and SOD.

32. Derivative Financial Instruments Designated As Hedging Instruments

Interest rate swaps

At 31 December 2013 and 31 December 2012, the Group had outstanding interest rate swaps to hedge against the variability of cash flows arising from the interest rate fluctuations.

Under these swaps, the Group would receive interests at variable rates at HIBOR and pay interests at fixed rates ranging from 0.53% to 0.64% (2012: 0.63% to 1.45%); receive interests at variable rates at LIBOR and pay interests at fixed rates ranging from 0.54% to 0.71% (2012: 0.70% to 0.71%); and receive interests at 110% of the PBOC Prescribed Interest Rate and pay interests at a fixed rate of 7.52% and 7.85% (2012: nil), based on the notional amounts of HK\$3,227 million (2012: HK\$3,530 million), US\$305 million (2012: US\$150 million) and RMB456 million (2012: nil) in aggregate as at 31 December 2013, respectively, and reduced ratably with repayment of the underlying bank borrowings.

The Group has designated the interest rate swaps as hedges against the variability of interest payments of certain bank borrowings of the Group with principal amount of HK\$3,227 million (2012: HK\$3,530 million), US\$305 million (2012: US\$150 million) and RMB456 million (2012: nil) which bear variable interest rates at HIBOR plus spread ranging from 3.10% to 4.60% (2012: 3.00% to 4.50%), LIBOR plus spread ranging from 3.10% to 4.60% (2012: 3.10%) and 110% of PBOC Prescribed Interest Rate (2012: nil), respectively, and mature on or before October 2015, October 2015 and June 2016, respectively. The principal terms of the interest rate swaps have been negotiated to match the terms of the related bank borrowings.

During the year ended 31 December 2013, fair value gain arising from the interest rate swaps of RMB14 million (2012: RMB54 million) was deferred in equity as hedge reserve, which is expected to be recognised in the profit or loss at various dates upon the interest payments of the related bank borrowings being settled.

During the year ended 31 December 2012, certain interest rate swaps were early terminated due to early repayment of the relevant bank borrowings. Upon termination of the interest rate swaps, an amount of RMB47 million which was previously recognised in other comprehensive income and accumulated in hedge reserve was reclassified to profit or loss.

Cross currency swaps

During the year ended 31 December 2013, the Group entered into cross currency swaps to hedge against the variability of cash flows arising from the Group's 2015 SGD notes. Under these swaps, the Group would receive interest at a fixed rate of 8% per annum based on the principal amount of SGD250 million and pay interest semi-annually at fixed rates ranging from 9.57% to 9.68% per annum based on the notional amounts of RMB1,269 million in aggregate, with a maturity of two years due on 26 January 2015. The cross currency swaps have been negotiated to match the settlement periods of the 2015 SGD notes.

During the year ended 31 December 2013, the fair value loss arising from the cross currency swaps of RMB98 million was recognised in other comprehensive income, of which fair value loss amounting to RMB75 million was reclassified from hedge reserve to profit or loss in the same period when the hedged item affects profit or loss.

33. Deferred Tax Assets/Liabilities

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation RMB'million	Revaluation of investment properties RMB'million	Tax losses RMB'million	Recognition of sales and related cost of sales RMB' million	Withholding tax on income derived in the PRC RMB' million	Others RMB' million	Total RMB' million
At 1 January 2012	1,105	2,526	(17)	(59)	186	(185)	3,556
Charge (credit) to profit or loss	67	672	(104)	(132)	(1)	108	610
Acquisition of subsidiaries (note 35(a))	148	530	(26)	-	21	96	769
At 31 December 2012	1,320	3,728	(147)	(191)	206	19	4,935
Charge (credit) to profit or loss	113	777	(34)	40	43	34	973
Disposal of subsidiaries (note 35(d))	(136)	(214)	4	-	-	-	(346)
At 31 December 2013	1,297	4,291	(177)	(151)	249	53	5,562

For the purposes of presentation of the consolidated statement of financial position, certain deferred tax (assets) liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2013 RMB'million	2012 RMB'million
Deferred tax assets	(100)	(93)
Deferred tax liabilities	5,662	5,028
	5,562	4,935

At the end of the reporting period, the Group has unused tax losses of RMB885 million (2012: RMB734 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to RMB706 million (2012: RMB587 million). No deferred tax asset has been recognised in respect of the remaining tax losses of RMB179 million (2012: RMB147 million) due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years ending 31 December:

	2013 RMB'million	2012 RMB'million
2013	-	34
2014	1	7
2015	30	39
2016	7	52
2017	19	15
2018	122	-
	179	147

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34. Provident and Retirement Fund Schemes

Hong Kong

The Group participates in both a defined benefit plan (the "Plan") which is registered under the Occupational Retirement Schemes Ordinance and in a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The Plan was effective in 2004. The assets of the Plan are held separately from those of the Group and are invested in securities and funds under the control of trustees. Employees who were members of the Plan prior to the establishment of MPF Scheme were offered a choice of staying within the Plan or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The MPF Scheme

For members of the MPF Scheme, contributions are made by the employees at 5% of relevant income and by the Group at rates ranging from 5% to 10% of the employees' salaries, depending on the employees' length of services with the Group.

The Group's contributions to the MPF Scheme charged to the consolidated statement of profit or loss as staff costs during the year ended 31 December 2013 and 31 December 2012 are less than RMB1 million.

The Plan

Contributions to the Plan are made by the members at 5% of their salaries and by the Group which are based on recommendations made by the actuary of the Plan. Under the Plan, a member is entitled to retirement benefits which comprise the sum of any benefits transferred from another scheme and the greater of the sum of employer's basic contribution plus the member's basic contribution accumulated with interest at a rate of no less than 6% per annum before 1 September 2003 and 1% per annum in respect of contributions made on or after 1 September 2003 or 1.8 times the final salary times the length of employment with the Group on the attainment of the retirement age of 60. For members who joined the Plan before 1997, the retirement age is 60 for male members and 55 for female members. No other post-retirement benefits are provided.

The actuarial valuations of the plan assets and the present value of the defined benefit obligation are carried out at 31 December 2013 and 31 December 2012 by Ms. Elaine Hwang of Towers Watson Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations and the related current service cost are measured using the Projected Unit Credit Method.

The Plan exposes the Group to actuarial risks such as investment risk, interest risk and salary risk.

Investment risk	The plan assets are invested in a diversified portfolio of equities, hedge funds, bonds and cash, covering major geographical locations around the world. The diversification of asset classes and geographical location helps to reduce the concentration of risk associated with the plan investments.
Interest risk	The present value of the defined benefit plan liabilities is calculated using a discount rate determined by reference to market corporate bond yields. A decrease in the discount rate will increase the plan liabilities.
Salary risk	The present value of the defined benefit plan liabilities is calculated by reference to the future salaries of members. An increase in the salaries of members will increase the plan liabilities.

34. Provident and Retirement Fund Schemes (Continued)

Hong Kong (Continued)

The Plan (Continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at	
	2013	2012
Discount rate per annum	1.8%	0.5%
Expected rate of salary increase	5.0%	5.0%

The actuarial valuation showed that the market value of plan assets was RMB51 million (2012: RMB41 million) and that the actuarial value of these assets represented 50% (2012: 42%) of the benefits that had accrued to members.

Amounts recognised in profit or loss and other comprehensive income in respect of these defined benefit plans are as follows:

	2013 RMB'million	2012 RMB'million
Service cost and components of defined benefit costs recognised in profit or loss:		
– Current service cost	4	3
– Net interest cost	–	1
	4	4
Remeasurement on the net defined benefit liability and components of defined benefit costs recognised in other comprehensive income:		
– Return on plan assets (excluding amounts included in net interest expense)	(4)	–
– Actuarial gains and losses arising from changes in demographic assumptions	2	–
– Actuarial gains and losses arising from changes in financial assumptions	(9)	–
– Actuarial gains and losses arising from experience adjustments	49	–
	38	–
Total	42	4

The expense for the year is included in the retirement benefits costs in profit or loss.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	2013 RMB'million	2012 RMB'million
Present value of funded defined benefit obligations	102	53
Fair value of plan assets	(51)	(41)
Net liabilities arising from defined benefit obligations	51	12

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34. Provident and Retirement Fund Schemes (Continued)

Hong Kong (Continued)

The Plan (Continued)

Movements in the present value of the defined benefit obligations in the current year were as follows:

	2013 RMB'million	2012 RMB'million
At 1 January	53	48
Current service cost	4	3
Interest cost	–	1
Remeasurement (gains) losses:		
– Actuarial gains and losses arising from changes in demographic assumptions	2	–
– Actuarial gains and losses arising from changes in financial assumptions	(9)	–
– Actuarial gains and losses arising from experience adjustments	49	–
Contributions from plan participants	1	1
Transfer in	5	–
Exchange realignment	(3)	–
At 31 December	102	53

Movements in the present value of the plan assets in the current year were as follows:

	2013 RMB'million	2012 RMB'million
At 1 January	41	39
Remeasurement gain:		
– Return on plan assets (excluding amounts included in net interest expense)	4	–
Contributions from the employer	2	1
Contributions from plan participants	1	1
Transfer in	5	–
Exchange realignment	(2)	–
At 31 December	51	41

The major categories of plan assets at the end of the reporting period are as follows:

	2013 RMB'million	2012 RMB'million
Equities	30	23
Hedge funds	9	7
Bonds and cash	12	11
	51	41

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets.

The actual return on plan assets was RMB4 million (2012: RMB4 million).

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate and expected rate of salary increase. No sensitivity analysis is prepared as the financial impact arising from the changes in discount rate and expected rate of salary increase is insignificant.

34. Provident and Retirement Fund Schemes (Continued)

Hong Kong (Continued)

The Plan (Continued)

The management has regularly monitored the investment strategies of the plan assets and there has been no change in the process used by the management to manage its risks from prior periods.

The average duration of the benefit obligation at 31 December 2013 is 6.7 years (2012: 7.2 years).

The Group expects to make a contribution of RMB13 million (2012: RMB2 million) to the defined benefit plan during the next financial year.

PRC

According to the relevant laws and regulations in the PRC, certain subsidiaries established in the PRC are required to contribute a specific percentage of the payroll of their employees to retirement benefit schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the respective schemes.

35. Acquisitions and Disposals

(a) Acquisition of subsidiaries

Pursuant to a sale and purchase agreement dated 9 September 2011 entered into between Rich Bright Holdings Limited ("Rich Bright", an indirect wholly-owned subsidiary of the Company), as the purchaser and Cassidy Enterprises Corp. ("Cassidy", an indirect wholly-owned subsidiary of SOI) and SOI, as sellers, Rich Bright agreed to acquire from Cassidy and SOI, respectively, the entire equity interest in Rimmer Investments Limited ("Rimmer", which indirectly owns Shui On Plaza, an office and retail complex located at Huangpu District, Shanghai, the PRC); and 66.7% equity interest in Magic Garden Investments Limited ("Magic Garden", which indirectly beneficially owns Langham Xintiandi Hotel located at Huangpu District, Shanghai, the PRC).

Langham Xintiandi Hotel is owned by Shanghai Lixing, a company established in the PRC of which the Group holds 50% equity interest through Landton Limited ("Landton", a wholly-owned subsidiary of Victorious Run Limited "VRL", a wholly-owned subsidiary of Magic Garden). In accordance with the shareholders' agreement entered into among Magic Garden, Shanghai Lixing, Landton, VRL and the other joint venturers of Shanghai Lixing, the Group solely has the ability to execute the right and control over, and is solely responsible for or entitled to, as appropriate, all costs incurred in the development, construction and operation of, and income arising from the operation of Langham Xintiandi Hotel. The related assets, liabilities, income and expenses of Langham Xintiandi Hotel are therefore consolidated in the consolidated financial statements of the Group.

SOCL was the substantial shareholder of the Company, which indirectly held 48% of the issued shares of the Company prior to the acquisition. Upon completion of the acquisition of Rimmer and Magic Garden, SOCL became the ultimate holding company of the Company. Mr. Vincent H.S. Lo, the Chairman of the Company, has controlling interest in SOCL.

On 16 March 2012, the acquisition of Rimmer and Magic Garden was completed. Upon completion of the transaction, Rimmer and Magic Garden became subsidiaries of the Company. In the opinion of the Directors, the acquisition of Rimmer and Magic Garden will complement the Group's strong established position in the PRC real estate market with a stronger presence in Shanghai and position the Group to capture the growth potential from the main financial and business hub of the PRC. The acquisition is expected to make a positive contribution to the income stream of the Group.

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35. Acquisitions and Disposals (Continued)

(a) Acquisition of subsidiaries (Continued)

The consideration for the acquisition of Rimmer and Magic Garden was settled by the issuance of 626,909,643 shares of the Company and was determined based on the fair values of the assets and liabilities acquired at the date of acquisition. The fair values of the assets and liabilities acquired at the date of acquisition are set out as follows:

	Rimmer RMB'million	Magic Garden RMB'million	Total RMB'million
Investment properties	2,676	189	2,865
Property, plant and equipment	456	1,860	2,316
Accounts receivable, deposits and prepayments	4	28	32
Bank balances and cash	84	27	111
Amounts due from related companies	203	–	203
Amounts due to related companies	–	(581)	(581)
Loan from a non-controlling shareholder of a subsidiary	–	(306)	(306)
Accounts payable, deposits received and accrued charges	(35)	(213)	(248)
Amount due to a non-controlling shareholder of a subsidiary	(18)	–	(18)
Tax liabilities	(4)	–	(4)
Bank borrowings	(921)	(203)	(1,124)
Deferred tax liabilities	(675)	(94)	(769)
	1,770	707	2,477
Gain on acquisition of subsidiaries:			
Consideration transferred			1,766
Add: Non-controlling interests			661
Less: Fair values of assets and liabilities acquired			(2,477)
			(50)
Cash inflow arising on acquisition:			
Cash and cash equivalents acquired			111

The non-controlling interests in Rimmer and Magic Garden recognised at the acquisition date was measured with reference to the non-controlling interests' proportionate share of the fair value of net assets of Rimmer and Magic Garden and amounted to RMB661 million.

Included in the profit for the year ended 31 December 2012 is profit of RMB116 million attributable to Rimmer and Magic Garden. Turnover for the year ended 31 December 2012 includes RMB270 million generated from Rimmer and Magic Garden.

Had the acquisition of Rimmer and Magic Garden been completed on 1 January 2012, the Group's total turnover for the year ended 31 December 2012 would have been RMB4,884 million, and the Group's profit for the year ended 31 December 2012 would have been RMB2,386 million. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

35. Acquisitions and Disposals (Continued)

(b) Acquisition of additional interests in subsidiaries

- (i) During the year ended 31 December 2013, the Group acquired from a non-controlling equity owner its entire equity interest in certain subsidiaries, representing 3% of the registered capital of Bai-Xing, a subsidiary in which the Company indirectly owned 97% equity interest, 3% of the registered capital of Ji-Xing, a subsidiary in which the Company indirectly owned 97% equity interest, 1% of the registered capital of TPQM, a subsidiary in which the Company indirectly owned 99% equity interest, 3% of the registered capital of XTD Plaza, a subsidiary in which the Company indirectly owned 97% equity interest, 1% of the registered capital of Xing Bang, a subsidiary in which the Company indirectly owned 99% equity interest, 3% of the registered capital of Xing-Qi, a subsidiary in which the Company indirectly owned 97% equity interest, for a total cash consideration of RMB177 million. Upon completion of the acquisition, Bai-Xing, Ji-Xing, TPQM, XTD Plaza, Xing Bang and Xing-Qi became wholly-owned subsidiaries of the Group.

An amount of RMB52 million recognised in other reserve during the year ended 31 December 2013 represents the difference between the cash consideration paid and the carrying amount of the net assets attributable to the additional interest in Bai-Xing, Ji-Xing, TPQM, XTD Plaza, Xing Bang and Xing-Qi being acquired from the non-controlling equity owner.

- (ii) During the year ended 31 December 2012, the share capital of Foresight, an indirect non-wholly-owned subsidiary of the Company which indirectly owns all ownership interest in a PRC enterprise which is engaged in the Rui Hong Xin Cheng project, was increased, whereby SOD, a wholly owned subsidiary of the Company which owned 75% equity interest in Foresight, subscribed the entire portion of the increase in share capital at a consideration of HK\$1,174 million (equivalent to RMB952 million). Elegant Partners Limited ("EPL", a non-controlling shareholder which owned 25% of equity interest in Foresight) did not participate in injecting any additional capital into Foresight. Upon completion of the subscription, the equity interest of SOD in Foresight was increased by 4.81% from 75% to 79.81% and the equity interest of the non-controlling shareholder of Foresight was diluted from 25% to 20.19% by 4.81%.

An amount of RMB188 million recognised in the other reserve during the year ended 31 December 2012 represents the Group's share of additional interest in the carrying amount of the net assets of Foresight.

(c) Partial disposals of equity interests in subsidiaries

- (i) Pursuant to a sale and purchase agreement dated 29 November 2011, entered into between SOD, as seller, and Mitsui Fudosan Residential Co., Ltd. ("Mitsui", a non-controlling shareholder of an associate's subsidiary), as purchaser, SOD agreed to dispose of, and Mitsui agreed to acquire from SOD, 49% of the entire issued share capital of Value Land, an indirect wholly owned subsidiary of the Company which engages in the property development in Foshan, the PRC, and the related shareholder's loans of RMB298 million, for a total consideration of RMB391 million.

An amount of RMB352 million was received during the year ended 31 December 2011 and the remaining balance of RMB39 million was received during the year ended 31 December 2013 upon completion of the transaction pursuant to the terms of the sale and purchase agreement.

Upon completion of the transaction on 4 February 2013, the Group's ownership interest in Value Land has reduced to 51% and the Group continues to have control over Value Land. The difference of RMB84 million between the fair value of the consideration received and the carrying amount of the net assets attributable to the partial disposal of equity interests of 49% in Value Land is recognised directly in equity during the year ended 31 December 2013.

- (ii) Pursuant to a sale and purchase agreement dated 22 August 2012 entered into between SOD, as seller, and Mitsui, as purchaser, SOD agreed to dispose of, and Mitsui agreed to acquire from SOD, 49% of the entire issued share capital of Glory Land, an indirect wholly-owned subsidiary of the Company which engages in the property development in Foshan, the PRC, and the related shareholder's loans of RMB86 million from Mitsui, for a total consideration of RMB224 million.

Upon completion of the transaction on 9 November 2012, the Group's ownership interest in Glory Land had reduced to 51% and the Group continues to have control over Glory Land. The difference of RMB138 million between the fair value of the consideration received and the carrying amount of the net assets attributable to the partial disposal of equity interests of 49% in Glory Land was recognised directly in equity during the year ended 31 December 2012.

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35. Acquisitions and Disposals (Continued)

(d) Disposals of subsidiaries

During the year ended 31 December 2013, the Group disposed of its entire equity interest in certain subsidiaries which were engaged in property investment in Shanghai, the PRC, to an independent third party for a cash consideration of RMB3,319 million. The assets and liabilities disposed of in the transaction were as follows:

	RMB'million
Investment properties	4,300
Property, plant and equipment	3
Bank balances and cash	102
Other payables and accrued charges	(326)
Bank borrowings	(591)
Deferred tax liabilities	(346)
Net assets disposed of	3,142
Gain on disposal of subsidiaries:	
Cash consideration received	3,319
Less: Transaction costs	(39)
Less: Net assets disposed of	(3,142)
Add: Non-controlling interests	21
	159
Net cash inflow arising on disposal:	
Cash consideration received	3,319
Less: Transaction costs	(39)
Less: Bank balances and cash disposed of	(102)
	3,178

Included in the profit for the year ended 31 December 2013 is profit of RMB398 million attributable to the disposed subsidiaries. The disposed subsidiaries do not contribute any turnover to the Group during the year ended 31 December 2013.

36. Share-Based Payment Transactions

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the shareholders on 8 June 2007 for the primary purpose of providing incentives to Directors, eligible employees and consultants. Under the Scheme, the total number of shares in respect of which options may be granted is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

At 31 December 2013, 136,530,711 share options (2012: 173,134,188 share options) remains outstanding under the Scheme, representing 1.7% (2012: 2.9%) of the shares of the Company in issue at that date. The Scheme allows the Board of Directors, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable. The exercise price is determined by the Directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

HK\$1.00 is payable by each eligible participant to the Company on acceptance of an offer of options, to be paid within 1 month from the date of the offer.

36. Share-Based Payment Transactions (Continued)

During the year ended 31 December 2012, an aggregate of 79,509,246 share options were granted to certain Directors and certain eligible employees. Details are as follows:

Date of grant	Exercise price HK\$	Closing share price at date of grant HK\$	Weighted average estimated fair value at date of grant HK\$	Number of share options granted
18 January 2012	2.61	2.61	0.94	40,771,000
3 September 2012	5.35	2.83	0.54	38,738,246
				<u>79,509,246</u>

The fair values of the share options as at the grant date were calculated using the Binomial model. The inputs into the model were as follows:

	Granted on 18 January 2012	Granted on 3 September 2012
Expected volatility	50%	50%
Expected life	4.9 years	4.8 to 5.7 years
Risk-free rate	0.64% to 0.88%	0.18% to 0.35%
Expected dividend yield	2.4%	3.2%

Expected volatility was determined by using the volatility of the historical share price of the Company since its listing in October 2006.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The vesting period and the exercisable period of the share options granted to eligible employees and Directors on 18 January 2012 are as follows:

	Vesting period	Exercisable period
The first 50% of the grant:	From date of grant to 27 June 2013	From 28 June 2013 to 17 January 2020
The second 25% of the grant:	From date of grant to 31 December 2013	From 1 January 2014 to 17 January 2020
The last 25% of the grant:	From date of grant to 31 December 2014	From 1 January 2015 to 17 January 2020

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36. Share-Based Payment Transactions (Continued)

The vesting period and the exercisable period of the share options granted to eligible employees and Directors for the remaining grants are as follows:

	Vesting period	Exercisable period
The first 1/7 of the grant:	From date of grant to the 2nd anniversary	From the 2nd to the 7th anniversary of the date of grant
The second 1/7 of the grant:	From date of grant to the 3rd anniversary	From the 3rd to the 8th anniversary of the date of grant
The third 1/7 of the grant:	From date of grant to the 4th anniversary	From the 4th to the 9th anniversary of the date of grant
The fourth 1/7 of the grant:	From date of grant to the 5th anniversary	From the 5th to the 9th anniversary of the date of grant
The fifth 1/7 of the grant:	From date of grant to the 6th anniversary	From the 6th to the 9th anniversary of the date of grant
The sixth 1/7 of the grant:	From date of grant to the 7th anniversary	From the 7th to the 9th anniversary of the date of grant
The last 1/7 of the grant:	From date of grant to the 8th anniversary	From the 8th to the 9th anniversary of the date of grant

The vesting period and the exercisable period of the share options granted to a consultant are as follows:

	Vesting period	Exercisable period
The first 1/5 of the grant:	Unconditional and fully vested at the date of grant	Before the 5th anniversary of the date of grant
The second 1/5 of the grant:	From date of grant to the 1st anniversary	Before the 6th anniversary of the date of grant
The third 1/5 of the grant:	From date of grant to the 2nd anniversary	Before the 7th anniversary of the date of grant
The fourth 1/5 of the grant:	From date of grant to the 3rd anniversary	Before the 8th anniversary of the date of grant
The last 1/5 of the grant:	From date of grant to the 4th anniversary	Before the 9th anniversary of the date of grant

The Group has recognised the total expense of RMB11 million (2012: RMB18 million) in the profit or loss in relation to share options granted by the Company.

During the years ended 31 December 2013 and 31 December 2012, none of the share options have been exercised.

36. Share-Based Payment Transactions (Continued)

The movement in the Company's share options is set out below:

Date of grant	Exercise price HK\$ (note)	Number of options				
		At 1 January 2013	Adjustment in respect of Rights Issue (note)	Granted during the year	Lapsed during the year	At 31 December 2013
20 June 2007	6.45	61,510,444	5,123,811	–	(6,762,117)	59,872,138
1 August 2007	7.54	784,457	64,847	–	(69,160)	780,144
2 October 2007	9.22	1,574,269	130,093	–	(655,330)	1,049,032
1 November 2007	10.86	448,212	38,069	–	(73,881)	412,400
3 December 2007	9.11	101,481	8,609	–	(3,725)	106,365
2 January 2008	8.27	2,724,178	226,486	–	(218,524)	2,732,140
1 February 2008	7.42	857,590	69,013	–	(45,190)	881,413
3 March 2008	7.08	451,549	33,954	–	(57,651)	427,852
2 May 2008	7.31	3,761,937	306,484	–	(271,944)	3,796,477
2 June 2008	6.77	9,754,376	732,356	–	(1,422,319)	9,064,413
2 July 2008	5.95	445,679	32,997	–	(78,742)	399,934
4 September 2009	4.52	14,531,719	1,131,994	–	(2,969,614)	12,694,099
18 January 2012	2.41	39,761,000	3,256,520	–	(29,713,833)	13,303,687
3 September 2012	4.93	36,427,297	2,964,847	–	(8,381,527)	31,010,617
		173,134,188	14,120,080	–	(50,723,557)	136,530,711
Categorised as:						
Directors		22,209,652	1,879,535	–	(9,447,271)	14,641,916
Consultant		800,000	68,000	–	(217,000)	651,000
Employees		150,124,536	12,172,545	–	(41,059,286)	121,237,795
		173,134,188	14,120,080	–	(50,723,557)	136,530,711
Number of options exercisable		53,817,874				73,938,553

Note:

The number and exercise price of the outstanding share options were adjusted as a result of completion of the Rights Issue.

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36. Share-Based Payment Transactions (Continued)

Date of grant	Exercise price HK\$	Number of options			
		At 1 January 2012	Granted during the year	Lapsed during the year	At 31 December 2012
20 June 2007	7.00	72,175,413	–	(10,664,969)	61,510,444
1 August 2007	8.18	808,631	–	(24,174)	784,457
2 October 2007	10.00	1,679,722	–	(105,453)	1,574,269
1 November 2007	11.78	497,855	–	(49,643)	448,212
3 December 2007	9.88	116,156	–	(14,675)	101,481
2 January 2008	8.97	2,848,402	–	(124,224)	2,724,178
1 February 2008	8.05	1,269,992	–	(412,402)	857,590
3 March 2008	7.68	490,381	–	(38,832)	451,549
2 May 2008	7.93	4,440,654	–	(678,717)	3,761,937
2 June 2008	7.34	10,570,579	–	(816,203)	9,754,376
2 July 2008	6.46	696,537	–	(250,858)	445,679
4 September 2009	4.90	17,110,429	–	(2,578,710)	14,531,719
18 January 2012	2.61	–	40,771,000	(1,010,000)	39,761,000
3 September 2012	5.35	–	38,738,246	(2,310,949)	36,427,297
		112,704,751	79,509,246	(19,079,809)	173,134,188
Categorised as:					
Directors		7,131,120	18,831,214	(3,752,682)	22,209,652
Consultant		1,500,000	–	(700,000)	800,000
Employees		104,073,631	60,678,032	(14,627,127)	150,124,536
		112,704,751	79,509,246	(19,079,809)	173,134,188
Number of options exercisable		43,104,768			53,817,874

37. Pledge of Assets

The following assets are pledged to banks as securities to obtain certain banking facilities at the end of the reporting period:

	2013 RMB'million	2012 RMB'million
Investment properties	43,276	32,546
Property, plant and equipment	2,758	918
Prepaid lease payments	451	460
Properties under development for sale	10,600	7,031
Properties held for sale	88	30
Accounts receivable	41	55
Bank deposits	3,571	2,163
	60,785	43,203

In addition, the equity interests in certain subsidiaries with carrying amount of net assets of RMB24,710 million (2012: RMB16,029 million) are also pledged to banks as securities to obtain banking facilities granted to the Group at the end of the reporting period.

38. Lease Arrangements

As lessor

Property rental income in respect of the investment properties earned of RMB1,048 million (2012: RMB952 million), net of outgoings of RMB162 million (2012: RMB159 million), is RMB886 million (2012: RMB793 million). The investment properties held have committed tenants for the next one to sixteen years at fixed rentals. Included in the property rental income, certain leases contain contingent rental income recognised during the year ended 31 December 2013 amounting to RMB23 million (2012: RMB21 million). These contingent rentals are generally based on specified percentages of turnover of the tenants.

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease payments which fall due as follows:

	2013 RMB'million	2012 RMB'million
Within one year	995	1,018
In the second to fifth years inclusive	1,297	1,414
Over five years	109	113
	2,401	2,545

As lessee

At the end of the reporting period, the Group has commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2013 RMB'million	2012 RMB'million
Within one year	26	31
In the second to fifth years inclusive	61	62
Over five years	38	45
	125	138

Operating lease payments represent rentals payable by the Group for certain of its office and retail properties. Leases are negotiated for an average term of one to nine years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. Commitments and Contingencies

(a) Capital and other commitments

(i) At the end of the reporting period, the Group has the following commitments:

	2013 RMB'million	2012 RMB'million
<i>Contracted but not provided for:</i>		
Development costs for investment properties under construction or development	7,250	7,312
Development costs for properties under development held for sale	4,969	7,130
	12,219	14,442

(ii) Pursuant to an agreement entered into with the 上海市虹口區衛生局 of the Hongkou District, Shanghai, the PRC on 20 June 2006, the Group had committed to build a hospital to be located in the Rui Hong Xin Cheng area of the Hongkou District as compensation for the removal of those medical and health care services originally located in that area. As at 31 December 2013 and 2012, no construction contracts related to the hospital have been entered into. No provision for the construction costs has been made in the consolidated financial statements as the amount cannot be measured reliably.

(b) Contingent liabilities

Financial guarantee contracts:

- (i) Pursuant to an agreement entered into with the district government (the "Hongkou Government") and the Education Authority of the Hongkou District, Shanghai, the PRC on 31 July 2002, guarantees of no more than RMB324 million (2012: RMB324 million) will be granted by the Group to support bank borrowings arranged in the name of a company to be nominated by the Hongkou Government, as part of the financial arrangement for the site clearance work in relation to the development of a parcel of land. As at 31 December 2013 and 31 December 2012, such arrangement has not taken place.
- (ii) As at 31 December 2013, the Group has provided a guarantee to a joint venture, which was formed between Richcoast and Mitsui, and Mitsui for an amount not exceeding RMB345 million (2012: RMB345 million) in respect of Richcoast's payment obligations to the joint venture and Mitsui.

In determining whether financial liabilities should be recognised in respect of the Group's financial guarantee contracts, the Directors of the Company exercise judgment in evaluation of the probability of resources outflow that will be required and the assessment of whether a reliable estimate can be made of the amount of the obligation.

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the consolidated statement of financial position as at 31 December 2013 and 31 December 2012. Should the actual outcome be different from expected, provision for losses will be recognised in the consolidated financial statements.

40. Related Party Transactions

Apart from the related party transactions and balances as stated in notes 10, 17, 18, 22, 23, 25, 35 and 39, the Group has the following transactions with related companies during the year:

	2013 RMB'million	2012 RMB'million
SOCL and its subsidiaries other than those of the Group		
Rental and building management fee expenses	4	9
Travelling expenses	8	10
Interest income	–	4
Interest expenses	1	5
SOCAM and its subsidiaries, being associates of SOCL		
Rental and building management fee income	–	2
Project construction costs	455	914
Associates		
Project management fee income	20	11
Imputed interest income	51	44
Interest income	65	55
Joint venture		
Rental and building management fee income	2	4
Interest income	20	–
Directors		
Property sales	25	1
Key management personnel		
Property sales	9	3
Short-term benefits	58	43
Post-employment benefits	1	2
Share-based payments	4	10
	63	55

41. Events After the Reporting Period

(a) On 31 October 2013, the Company and China Xintiandi Holding Company Limited (“China Xintiandi”, a wholly-owned subsidiary of the Company) entered into an investment agreement (“Investment Agreement”) with Brookfield Property L.P., Brookfield BPY Holdings Inc, BPY Bermuda Holdings Ltd, BPY Bermuda Holdings II Ltd and BSREP CXTD Holdings L.P. (“Brookfield”), pursuant to which Brookfield will invest US\$500 million into China Xintiandi in return for (1) convertible perpetual securities (“Convertible Perpetual Securities”) to be issued by China Xintiandi in an aggregate principal amount of US\$500 million and (2) 415 million warrants (“Warrants”) to be issued by the Company, exercisable for 415 million ordinary shares of the Company (“Company Share”) at an exercise price of HK\$2.85 per share (subject to a cap of HK\$3.62 on gain per Company Share and customary anti-dilution adjustments). For more information on the Investment Agreement, please refer to the announcement of the Company published on 31 October 2013, and the Company’s circular dated 30 November 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. Events After the Reporting Period (Continued)

The completion of the transaction took place on 17 February 2014 as all the conditions precedent for the issue of the Convertible Perpetual Securities and Warrants under the Investment Agreement have been fulfilled.

Pursuant to the terms of the Convertible Perpetual Securities, China Xintiandi, as the issuer, can at its option redeem the Convertible Perpetual Securities and at its discretion defer distributions on the Convertible Perpetual Securities. However, China Xintiandi will not be able to declare or pay any dividends if any distributions on the Convertible Perpetual Securities are unpaid or deferred. In the opinion of the Directors of the Company, this restriction does not result in China Xintiandi having the obligation to redeem the Convertible Perpetual Securities or pay distributions on the Convertible Perpetual Securities. Accordingly, the Convertible Perpetual Securities are classified as equity instruments.

In addition, the Warrants issued by the Company are measured at fair value at initial recognition, any gains or losses arising from subsequent remeasurement to fair values will be recognised in profit or loss.

- (b) On 19 February 2014, SOD issued RMB2,500 million senior notes to independent third parties with a maturity of three years due on 26 February 2017 (the "2017 RMB notes"). The 2017 RMB notes are denominated in RMB and settled in US\$, and bear coupon at 6.875% per annum payable semi-annually in arrears.

42. 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 maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, convertible bonds and notes disclosed in notes 26, 29 and 30, respectively net of bank balances and cash, restricted bank deposits and pledged bank deposits, and equity attributable to shareholders of the Company, comprising issued share capital and reserves, perpetual capital securities and other non-controlling shareholders of subsidiaries.

The Directors of the Company review the capital structure of the Group by using a gearing ratio, which is calculated on the basis of dividing the excess of the sum of convertible bonds, notes, bank and other borrowings over the sum of bank balances and cash (inclusive of restricted bank deposits and pledged bank deposits) by total equity. The review is conducted at least quarterly and before each major financing or investment decision is made.

The gearing ratios at the end of reporting dates are as follows:

	2013 RMB'million	2012 RMB'million
Bank and other borrowings	24,366	18,803
Convertible bonds	395	2,346
notes	10,330	13,519
Pledged bank deposits	(3,571)	(2,163)
Restricted bank deposits	(1,231)	(183)
Bank balances and cash	(5,378)	(6,287)
Net debt	24,911	26,035
Total equity	42,174	37,268
Net debt to total equity	59%	70%

43. Financial Instruments

(a) Categories of financial instruments

	2013 RMB'million	2012 RMB'million
Financial assets		
Loans and receivables (including bank balances and cash)	14,203	11,594
Financial liabilities		
Derivative instruments designated as hedging instruments	105	23
Amortised cost	43,982	42,475

(b) Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, loans to associates, loan to a joint venture, amounts due from associates, amounts due from related companies, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, restricted bank deposits, bank balances and cash, accounts payable, amounts due to related companies, amounts due to associates, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries, bank and other borrowings, convertible bonds, notes and derivative financial instruments.

Details of these financial instruments are disclosed in the 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.

The main risks arising from the Group's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Currency risk

All of the Group's turnover is denominated in RMB. However, the Group has certain bank balances and debt obligations that are denominated in foreign currency. As a result, the Group is exposed to fluctuations in foreign exchange rates. The management closely monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	2013 RMB'million	2012 RMB'million
HK\$		
Assets	1,342	3,200
Liabilities	8,445	7,471
US\$		
Assets	326	2,323
Liabilities	9,006	8,916
SGD		
Liabilities	1,238	1,298

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For the year ended 31 December 2013

43. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency of HK\$, US\$ and SGD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items assuming the balances at the end of the reporting period outstanding for the whole year and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Notes	2013 RMB'million	2012 RMB'million
HK\$			
Profit or loss	(i)	338	203
US\$			
Profit or loss	(ii)	413	314
SGD			
Profit or loss	(iii)	–	62

Notes:

- (i) This is mainly attributable to the exposure outstanding on receivables and payables denominated in HK\$ not subject to cash flow hedges at year end.
- (ii) This is mainly attributable to the exposure outstanding on receivables, payables and notes denominated in US\$ not subject to cash flow hedges at year end.
- (iii) This is mainly attributable to the exposure outstanding on senior notes denominated in SGD not subject to cash flow hedges at year end.

The Group's sensitivity to foreign currency has increased in profit during the current year mainly due to both the significant depreciation of HK\$ and US\$ against RMB.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its bank and other borrowings and loans from non-controlling shareholders of subsidiaries at variable rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR, LIBOR, SIBOR, and PBOC prescribed interest rate arising from the Group's HK\$, US\$ and RMB borrowings. In order to mitigate the cash flow interest rate risk in respect of the bank and other borrowings, the Group has entered into several interest rate swaps (which have been designated as hedging instruments) whereby the Group will receive interest at variable rates at HIBOR, LIBOR or PBOC and pay interests at fixed rates. Details of the interest rate swaps are set out in note 32.

43. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank and other borrowings and loans from non-controlling shareholders of subsidiaries, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables are held constant, the Group's profit for the year ended 31 December 2013 would decrease/increase by RMB41 million (2012: RMB34 million). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank and other borrowings, after taking into consideration the effects of the interest rate swaps designated as hedging instruments and capitalisation of interest costs.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

Credit risk

As at 31 December 2013, 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 recognised 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 39.

The Group's credit risk is primarily attributable to its loans to associates, loan to a joint venture, accounts receivable, amounts due from associates and amount of contingent liabilities in relation to the financial guarantees provided by the Group. The amounts presented in the consolidated statement of financial position are net of allowances for bad and doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, except for as at 31 December 2013 where the largest debtor amounting to approximately RMB313 million arising from sales of properties, loans to associates of RMB1,654 million, loan to a joint venture of RMB675 million and amounts due from associates of RMB564 million (2012: the largest debtor amounting to approximately RMB91 million arising from sales of properties, loans to associates of RMB1,659 million, amounts due from associates of RMB484 million).

The credit risk on liquid funds is limited because the funds have been deposited with various creditworthy financial institutions located in Hong Kong and in the PRC.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of bank and other borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The following table details the maturities of the Group's financial liabilities. 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.

For derivative instruments that settle on a net basis, undiscounted net cash outflows are presented.

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For the year ended 31 December 2013

43. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Within 1 year or on demand RMB'million	More than 1 year but less than 2 years RMB'million	More than 2 years but less than 5 years RMB'million	More than 5 years RMB'million	Total undiscounted cash flows RMB'million	Carrying amount at 31 December 2013 RMB'million
2013							
Non-derivative financial liabilities							
Accounts payable, deposits received and accrued charges	–	5,241	–	–	–	5,241	5,241
Bank and other borrowings at variable rates	6.0%	7,540	9,346	9,806	952	27,644	24,366
Convertible bonds	10.7%	20	453	–	–	473	395
notes	9.0%	883	10,472	–	–	11,355	10,330
Amounts due to related companies	–	411	–	–	–	411	411
Amounts due to non-controlling shareholders of subsidiaries	–	634	–	–	–	634	634
Loans from non-controlling shareholders of subsidiaries	6.8%	139	2,478	370	–	2,987	2,605
Financial guarantee contracts	–	345	–	–	–	345	–
		15,213	22,749	10,176	952	49,090	43,982
Derivatives – net settlement							
Cash flow hedge instruments	–	105	–	–	–	105	105

	Weighted average effective interest rate %	Within 1 year or on demand RMB'million	More than 1 year but less than 2 years RMB'million	More than 2 years but less than 5 years RMB'million	More than 5 years RMB'million	Total undiscounted cash flows RMB'million	Carrying amount at 31 December 2012 RMB'million
2012							
Non-derivative financial liabilities							
Accounts payable, deposits received and accrued charges	–	4,000	–	–	–	4,000	4,000
Bank and other borrowings at variable rates	5.6%	6,535	5,127	9,693	1,262	22,617	18,803
Convertible bonds	10.7%	2,995	–	–	–	2,995	2,346
notes	8.6%	4,111	905	10,726	–	15,742	13,519
Amounts due to related companies							
– interest free	–	682	–	–	–	682	682
– interest bearing	6.1%	106	–	–	–	106	100
Amounts due to associates	–	11	–	–	–	11	11
Amounts due to non-controlling shareholders of subsidiaries	–	530	–	–	–	530	530
Loans from non-controlling shareholders of subsidiaries	6.8%	139	833	688	1,478	3,138	2,484
Financial guarantee contracts	–	345	–	–	–	345	–
		19,454	6,865	21,107	2,740	50,166	42,475
Derivatives – net settlement							
Cash flow hedge instruments	–	23	–	–	–	23	23

43. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (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 the 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 are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurement

The fair values of the Group's financial assets and financial liabilities excluding derivative financial instruments are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Group's derivative financial instruments are measured at fair value at the end of the reporting period and they are grouped under Level 2 financial instruments based on the degree to which the fair value is observable.

The Group's interest rate swaps amounting to RMB7 million (2012: RMB23 million) are measured at the present value of future cash flows, estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.

The Group's cross currency swaps amounting to RMB98 million (2012: nil) are measured at the present value of future cash flows, estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

44. Summarised Financial Position of the Company

	2013 RMB'million	2012 RMB'million
Investments in subsidiaries	4,375	4,375
Loan to a subsidiary	10,140	9,548
Amounts due from subsidiaries	1,785	1,809
Other prepayment	22	22
Bank balances	145	1
Total assets	16,467	15,755
Convertible bonds	395	2,346
Total liabilities	395	2,346
Net assets	16,072	13,409
Share capital	145	114
Reserves (note)	15,927	13,295
Total equity	16,072	13,409

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44. Summarised Financial Position of the Company (Continued)

Note: Details of the Company's reserves are set out below:

	Share premium RMB'million	Convertible bond equity reserve RMB'million	Other Reserve RMB'million (note 28(c))	Share option reserve RMB'million	Accumulated losses RMB'million	Total RMB'million
At 1 January 2012	12,985	605	483	170	(2,832)	11,411
Profit and total comprehensive income for the year	–	–	–	–	294	294
Issue of new shares	1,756	–	–	–	–	1,756
Recognition of equity-settled share-based payment expenses	–	–	–	18	–	18
Total dividends of HK\$0.125 paid, comprising 2012 final dividend of HK\$0.10 per share and 2013 interim dividend of HK\$0.025 per share	–	–	–	–	(595)	(595)
Shares issued in lieu of cash dividend	411	–	–	–	–	411
At 31 December 2012	15,152	605	483	188	(3,133)	13,295
Profit and total comprehensive income for the year	–	–	–	–	116	116
Issue of new shares under rights issue	2,906	–	–	–	–	2,906
Share issue expenses	(38)	–	–	–	–	(38)
Recognition of equity-settled share-based payment expenses	–	–	–	11	–	11
Total dividends of HK\$0.057 paid, comprising 2012 final dividend of HK\$0.035 per share and 2013 interim dividend of HK\$0.022 per share	–	–	–	–	(363)	(363)
Repurchase and redemption of convertible bonds	–	(509)	–	–	509	–
At 31 December 2013	18,020	96	483	199	(2,871)	15,927

45. Particulars of the Principal Subsidiaries

The directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the following list contains only the particulars of subsidiaries as at 31 December 2013 which principally affect the results or assets of the Group.

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2013 (note 1)	2012		
Ally Victory Limited	BVI 18 April 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Atlantic Best Limited	Hong Kong 5 January 2001	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Beaming Leader Limited	BVI 5 October 2012	7,000 A ordinary shares of US\$1 each and 3,000 B ordinary shares of US\$1 each	70%	70%	Hong Kong	Investment holding
Best Scene Retail Asset Management (Hong Kong) Limited	Hong Kong 4 April 2011	1 ordinary share of HK\$1	70%	70%	Hong Kong	Investment holding

45. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2013 (note 1)	2012		
Best View Development Limited	Hong Kong 5 March 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Billion China Investments Limited (note 5)	BVI 18 October 2007	10 A ordinary shares of US\$1 each and 10 B ordinary shares of US \$1 each	A shares: 51%	51%	Hong Kong	Investment holding
Billion World Limited	Hong Kong 19 November 2003	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Bondwise Profits Limited	BVI 28 December 2000	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Bright Continental Limited	Hong Kong 5 March 2003	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Bright Power Enterprises Limited	BVI 1 July 2004	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Brixworth International Limited	BVI 3 January 2001	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Central Fit Investments Limited	BVI 23 October 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Century Team Limited	Hong Kong 16 January 1998	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Chinalink Capital Limited	BVI 16 July 2003	999 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
China Advance Limited	Hong Kong 13 November 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
China Wealth (H.K.) Limited	Hong Kong 4 January 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
China Xintiandi Company Limited	BVI 21 March 2011	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
China Xintiandi Limited	Cayman Islands 18 April 2011	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
China Xintiandi Development Company Limited	Cayman Islands 3 November 2011	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
China Xintiandi Holding Company Limited	Cayman Islands 27 October 2011	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
China Xintiandi Investment Company Limited	Cayman Islands 27 October 2011	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
China Xintiandi Property Company Limited	Cayman Islands 27 October 2011	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
Chongqing Shui On Tiandi Property Development Co., Ltd.	PRC 21 November 2003	Registered and paid up capital US\$385,000,000	79.4%	79.4%	PRC	Property development and property investment
Citichamp Limited	Hong Kong 19 July 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Cititop Pacific Limited	Hong Kong 1 December 2000	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Costworth Investments Limited	BVI 12 January 2001	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding

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45. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2013 (note 1)	2012		
Crown Fame Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	51%	51%	Hong Kong	Investment holding
Cybricity Limited	Hong Kong 28 April 2000	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Dalian Yingjia Science and Technology Development Co., Ltd.	PRC 3 December 2009	Registered and paid up capital US\$23,000,000	100%	100%	PRC	Science and Technology development
East Capital Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
East Trend Limited	Hong Kong 14 February 2001	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Eastern View Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Ever Finance International Limited	BVI 27 February 2013	1 ordinary share of US\$1	100%	–	Hong Kong	Investment holding
Excel Efficient Limited	BVI 19 August 2002	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Excellent Win Enterprises Limited	Hong Kong 5 February 2010	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Fast China Limited	BVI 23 April 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Feng Cheng Property Management Services Limited	Hong Kong 14 November 2003	100 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Fieldcity Investments Limited ("Fieldcity")	BVI 30 March 2005	100 ordinary shares of US\$1 each	75%	75%	Hong Kong	Investment holding
Focus Top Limited	Hong Kong 24 April 1998	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Foresight Profits Limited	BVI 8 February 2001	10,000 ordinary shares of US\$1 each	79.81%	79.81%	Hong Kong	Investment holding
Fo Shan An Ying Property Development Co., Ltd.	PRC 8 January 2008	Registered and paid up capital RMB830,000,000	100%	100%	PRC	Property development
Fo Shan Rui Dong Property Development Co., Ltd.	PRC 25 April 2008	Registered capital RMB1,290,000,000 Paid up capital RMB990,656,000	100%	100%	PRC	Property development
Fo Shan Rui Fang Property Development Co., Ltd.	PRC 21 May 2008	Registered and paid up capital RMB690,000,000	100%	100%	PRC	Property development
Fo Shan Rui Kang Tian Di Property Development Co., Ltd.	PRC 21 May 2008	Registered and paid up capital RMB690,000,000	100%	100%	PRC	Property development
Fo Shan Shui On Tian Di Property Development Co., Ltd.	PRC 8 January 2008	Registered and paid up capital RMB900,000,000	55.9%	55.9%	PRC	Property development
Fo Shan Yi Kang Property Development Co., Ltd.	PRC 8 January 2008	Registered and paid up capital RMB1,130,000,000	100%	100%	PRC	Property development

45. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2013 (note 1)	2012		
Fo Shan Yi Kang Hotel Management Co., Ltd.	PRC 2 August 2011	Registered and paid up capital RMB5,000,000	100%	100%	PRC	Hotel management
Fo Shan Yong Rui Tian Di Property Development Co., Ltd.	PRC 21 March 2008	Registered and paid up capital RMB690,000,000	54.92%	100%	PRC	Property development
Fo Shan Yuan Kang Property Development Co., Ltd.	PRC 29 February 2008	Registered and paid up capital RMB700,000,000	100%	100%	PRC	Property development
Fo Shan Shui On Tiandi Trading Co., Ltd.	PRC 3 August 2010	Registered and paid up capital RMB1,000,000	100%	100%	PRC	Retail business
Fuhui Limited	BVI 1 April 2010	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Gains Ally Limited	BVI 3 May 2013	1 ordinary share of US\$1	100%	–	Hong Kong	Investment holding
Galore Profits Limited	BVI 23 January 2001	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Global Ocean Investments Limited	BVI 1 November 2002	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Globaland Limited	Hong Kong 30 October 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Globe State Properties Limited	BVI 12 October 2005	100 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Glory Advance Investments Limited	BVI 18 August 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Glory Land Investment Limited	Cayman Islands 3 July 2012	100 ordinary shares of US\$1 each	51%	51%	Hong Kong	Investment holding
Glory Wing Holdings Limited	BVI 15 January 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Grand Hope Limited (note 4)	Hong Kong 14 March 2003	100 A ordinary shares of HK\$1 each and 2 B ordinary shares of HK\$1 each	A shares: 80.2% B shares: 60.15%	80.2% 60.15%	Hong Kong	Investment holding
Hangzhou Xihu Tiandi Management Co., Ltd.	PRC 6 March 2003	Registered and paid up capital US\$7,000,000	100%	100%	PRC	Property management
Hing Tin Investments Limited	BVI 23 October 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Hollyfield Holdings Limited	Mauritius 19 April 2001	2 ordinary shares of US\$1 each	79.81%	79.81%	Hong Kong	Investment holding
Infoshore International Limited	BVI 1 November 2002	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Info Union Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Innovate Zone Group Limited	BVI 3 January 2007	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding

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45. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2013 (note 1)	2012		
Intellect Profit Investments Limited	BVI 10 August 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Interchina International Limited	BVI 12 January 2001	100 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Join Legend Limited	Hong Kong 2 June 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Joyous Bond Limited	BVI 18 April 2008	1 ordinary share of US\$1	79.81%	79.81%	Hong Kong	Investment holding
Keen Allied Investments Limited	BVI 18 September 2002	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
King Concord Limited	Hong Kong 3 October 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Kinmax Limited	Hong Kong 24 April 1998	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Land Pacific Limited	Hong Kong 2 November 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Landton Limited	Hong Kong 2 April 1997	2 ordinary shares of HK\$1 each	66.7%	66.7%	Hong Kong	Investment holding
Legend City Limited	Hong Kong 4 June 1997	2 ordinary shares of HK\$1 each	51%	51%	Hong Kong	Investment holding
Lucky Gain Limited	Hong Kong 8 November 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Magic Best Investments Limited	BVI 19 July 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Magic Bright Investments Limited (note 6)	BVI 18 September 2007	10 A ordinary shares of US\$1 each and 10 B ordinary shares of US\$1 each	A shares: 51%	100%	Hong Kong	Investment holding
			B shares: 100%	100%		
Magic Garden Investments Limited	BVI 6 November 2009	3 ordinary shares of US\$1 each	66.7%	66.7%	Hong Kong	Investment holding
Magic Shine Limited	BVI 3 April 2013	1 ordinary share of US\$1	100%	–	Hong Kong	Investment holding
Marble Way Limited	BVI 28 August 1996	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Merry Wave Limited	BVI 23 April 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Modern Prosper Investments Limited	BVI 1 November 2002	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Mount Eastern Limited	BVI 18 April 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Nation Development Limited	Hong Kong 26 October 2010	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
New Asia Limited	Hong Kong 31 October 2003	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
New Power Profits Limited	BVI 18 October 2005	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding

45. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2013 (note 1)	2012		
New Venture Enterprises Limited	Hong Kong 26 October 2010	1 ordinary shares of HK\$1	100%	100%	Hong Kong	Investment holding
Nice In Investments Limited	BVI 18 October 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Onfair Limited	Hong Kong 13 November 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Onwin Limited	Hong Kong 13 November 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Oriental Gain Limited	Hong Kong 2 February 2001	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Oriental Host Limited	Hong Kong 23 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Pacific Gain Limited	Hong Kong 11 September 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Port Pilot Limited	BVI 25 March 2013	1 ordinary share of US\$1	100%	–	Hong Kong	Investment holding
Portspin Limited	BVI 22 May 1997	100 ordinary shares of US\$1 each	51%	51%	Hong Kong	Investment holding
Princemax Limited	Hong Kong 15 April 1998	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Profitstock Holdings Limited	BVI 2 June 2005	100 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Regal Victory Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	51%	100%	Hong Kong	Investment holding
Rich Bright Holdings Limited	BVI 29 July 2011	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Rich Prime Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Rightchina Limited	BVI 2 July 2008	100 ordinary shares of US\$1 each	60.15%	60.15%	Hong Kong	Investment holding
Rightidea Limited	BVI 2 July 2008	100 ordinary shares of US\$1 each	80.2%	80.2%	Hong Kong	Investment holding
Rimmer Investments Limited	BVI 22 July 1994	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Rise Lake Investments Limited	BVI 23 August 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Score High Limited ("Score High")	BVI 12 February 2003	1,000 ordinary shares of US\$1 each	80.2%	80.2%	Hong Kong	Investment holding
Selfers Limited	BVI 29 November 1995	1 ordinary share of US\$1	79.81%	79.81%	Hong Kong	Investment holding
Shanghai Bai-Xing Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB146,761,000	100%	97%	PRC	Property development and property investment
Shanghai Best Scene Retail Asset Management Ltd	PRC 31 May 2012	Registered and paid up capital US\$25,000,000	70%	70%	PRC	Provision of management services
Shanghai Fu Ji Properties Co., Ltd.	PRC 18 January 2004	Registered and paid up capital US\$35,773,000	99%	99%	PRC	Property development

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45. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2013 (note 1)	2012		
Shanghai FuXiang Properties Co., Ltd.	PRC 19 December 2001	Registered and paid up capital RMB645,000,000	99%	99%	PRC	Property development and property investment
Shanghai Ji-Xing Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB69,452,000	100%	97%	PRC	Property development and property investment
Shanghai JingFu Property Co., Ltd.	PRC 26 December 2001	Registered and paid up capital RMB400,000,000	99%	99%	PRC	Property development
Shanghai Jiu Hai Rimmer Properties Co., Ltd. ("Shanghai Jiu Hai")	PRC 1 November 1994	Registered and paid up capital US\$30,000,000	80%	80%	PRC	Property development and property investment
Shanghai Jun Xing Property Development Co., Ltd. (note 7)	PRC 5 March 2009	Registered capital RMB3,411,300,000 Paid up capital RMB2,911,300,000	49.98%	49.98%	PRC	Property development
Shanghai Knowledge and Innovation Community Development Co., Ltd.	PRC 9 June 2010	Registered and paid up capital HK\$1,550,000,000	99%	99%	PRC	Property development
Shanghai Lakeville Properties Co., Ltd.	PRC 23 May 2001	Registered and paid up capital RMB165,000,000	99%	99%	PRC	Property development
Shanghai Le Fu Properties Co., Ltd.	PRC 20 February 2004	Registered and paid up capital US\$240,500,000	99%	99%	PRC	Property development
Shanghai IPO Food & Beverage Co., Ltd.	PRC 6 September 2006	Registered and paid up capital US\$1,890,000	100%	100%	PRC	Food and beverage services
Shanghai Rui Chen Property Co., Ltd.	PRC 6 May 1996	Registered and paid up capital RMB189,000,000	79.81%	79.81%	PRC	Property development and property investment
Shanghai Rui Qiao Property Development Co., Ltd.	PRC 28 December 2010	Registered and paid up capital RMB3,900,000,000	100%	100%	PRC	Property development
Shanghai Rui Hong Xin Cheng Co., Ltd.	PRC 2 July 2001	Registered capital RMB6,700,000,000 Paid up capital RMB6,106,303,030	79.01%	79.01%	PRC	Property development and property investment
Shanghai Shui On Club Business Management Co., Ltd.	PRC 29 July 2010	Registered and paid up capital RMB200,000	100%	100%	PRC	Provision of business management services
Shanghai Tai Ping Qiao Properties Management Co., Ltd.	PRC 31 August 2001	Registered and paid up capital US\$198,000	100%	99%	PRC	Property management
Shanghai Xin-tian-di Plaza Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB98,261,000	100%	97%	PRC	Property development and property investment
Shanghai Xing Bang Properties Co., Ltd.	PRC 21 June 2001	Registered and paid up capital RMB287,595,000	100%	99%	PRC	Property development and property investment

45. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2013 (note 1)	2012		
Shanghai Xing-Qi Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB266,653,000	100%	97%	PRC	Property development and property investment
Shanghai Xing Qiao Properties Co., Ltd.	PRC 18 January 2004	Registered and paid up capital US\$234,000,000	–	99%	PRC	Property development
Shanghai Yang Pu Centre Development Co., Ltd.	PRC 26 August 2003	Registered and paid up capital US\$137,500,000	86.8%	86.8%	PRC	Property development and property investment
Shui On Development (Holding) Limited	Cayman Islands 27 July 2005	22 ordinary shares of US\$0.01 each	100%	100%	Hong Kong	Investment holding
Shui On Development (Singapore) Pte. Limited	Singapore 27 December 2011	1 ordinary share of US\$10	100%	100%	Singapore	Debt financing
Shui On Land Management Limited	Hong Kong 12 May 2004	1 ordinary share of HK\$1	100%	100%	Hong Kong	Provision of management services
Prosper Profit Holding Limited	BVI 6 May 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Splendid Return Investments Limited	Hong Kong 13 May 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Lijiang) Holding Limited	BVI 28 April 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Lijiang) Limited	Hong Kong 5 May 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Shangri-La) Holding Limited	BVI 6 May 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Shangri-La) Limited	Hong Kong 13 May 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Kunming) Holding Limited	BVI 18 July 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Kunming) Limited	Hong Kong 25 July 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Yunnan) Development Limited	Cayman Islands 17 July 2006	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
Shine First Limited	BVI 25 October 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Shine Prime Investments Limited	BVI 2 November 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Shui On Secretaries & Nominees Limited	Hong Kong 30 November 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Provision of secretarial services
Silomax Limited	BVI 25 March 1996	1 ordinary share of US\$1	79.81%	79.81%	Hong Kong	Investment holding
Sino Realty Limited	Hong Kong 3 October 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Sino Wisdom Investments Limited	BVI 12 May 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding

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45. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2013 (note 1)	2012		
Sinoco Limited	Hong Kong 28 October 2002	2 ordinary shares of HK\$1 each	–	100%	Hong Kong	Investment holding
Sinothink Holdings Limited	BVI 15 September 2000	100 ordinary shares of US\$1 each	–	100%	Hong Kong	Investment holding
Smart Century Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Super Field Limited	Hong Kong 25 February 2005	1 ordinary share of HK\$1	75%	75%	Hong Kong	Investment holding
Taipingqiao Holding Company Limited	BVI 25 October 2011	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Timezone Management Limited	BVI 28 February 2001	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Tip Profit Limited	BVI 18 July 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Top Faith Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK\$1	79.81%	79.81%	Hong Kong	Investment holding
Top Victory Development Limited	Hong Kong 5 March 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Triumph Sky Group Limited	BVI 23 October 2007	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Union Grow Limited	Hong Kong 8 November 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Value Land Investment Limited	Cayman Islands 2 September 2011	1,010,000 ordinary shares of US\$0.01 each	51%	100%	Hong Kong	Investment holding
Victorious Run Limited	BVI 23 January 1997	100 ordinary shares of US\$1 each	66.7%	66.7%	Hong Kong	Investment holding
Victory Win Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Wuhan Shui On Tiandi Property Development Co., Ltd.	PRC 2 August 2005	Registered and paid up capital US\$273,600,000	75%	75%	PRC	Property development and property investment
Wuhan Shuion Shangqi Real Estate Management Co., Ltd.	PRC 24 July 2012	Registered and paid up capital US\$14,400,000	75%	75%	PRC	Property investment
上海百麗房地產開發有限公司 (Shanghai Baili Property Development Co., Ltd.)*	PRC 29 August 2002	Registered and paid up capital RMB100,000,000	79.81%	79.81%	PRC	Property development and property investment
上海豐誠物業管理有限公司 (Shanghai Feng Cheng Property Management Co., Ltd.)*	PRC 18 January 2004	Registered and paid up capital RMB37,079,950	100%	100%	PRC	Property management

45. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2013 (note 1)	2012		
上海豐誠楊浦物業管理有限公司(Shanghai Feng Cheng Yang Pu Property Management Co., Ltd*)	PRC 21 July 2010	Registered and paid up capital RMB950,000	100%	100%	PRC	Property management
上海瑞橋企業管理有限公司(Shanghai Rui Qiao Enterprise Management Co., Ltd.*)	PRC 23 April 2009	Registered and paid up capital RMB1,000,000	86.8%	86.8%	PRC	Property development
上海瑞展教育信息諮詢有限公司(Shanghai Rui Zhan Education Information Consultant Co., Ltd.*)	PRC 20 April 2010	Registered and paid up capital RMB100,000	79.81%	79.81%	PRC	Provision of education information and consultancy services
上海瑞安房地產發展有限公司(Shui On Development Limited*)	PRC 14 June 2004	Registered and paid up capital US\$58,000,000	100%	100%	PRC	Provision of management services
武漢瑞安天地商貿有限公司(Wuhan Shui On Tian Di Trading Co., Ltd.*)	PRC 8 January 2007	Registered and paid up capital US\$1,800,000	100%	100%	PRC	Retail business
上海新天地商業管理有限公司(Shanghai Xintiandi Management Limited*)	PRC 25 Feb 2013	Registered and paid up capital US\$5,000,000	100%	–	PRC	Provision of management services
上海瑞安創智商業經營管理有限公司(Shanghai Rui An Chuang Zhi Business Management Co., Ltd.*)	PRC 12 Dec 2013	Registered and paid up capital RMB500,000	86.8%	–	PRC	Provision of management and consultancy services

Notes:

- The Company directly holds the equity interest in Shui On Development (Holding) Limited. All other equity interests shown above are indirectly held by the Company.
- All subsidiaries established in the PRC are either equity joint ventures or cooperative joint ventures except Dalian Yingjia Science and Technology Development Co., Ltd., Fo Shan An Ying Property Development Co., Ltd., Fo Shan Rui Dong Property Development Co., Ltd., Fo Shan Rui Fang Property Development Co., Ltd., Fo Shan Rui Kang Tian Di Property Development Co., Ltd., Fo Shan Shui On Tian Di Property Development Co., Ltd., Fo Shan Yi Kang Property Development Co., Ltd., Fo Shan Yi Kang Hotel Management Co., Ltd., Fo Shan Yong Rui Tian Di Property Development Co., Ltd., Fo Shan Yuan Kang Property Development Co., Ltd., Fo Shan Shui On Taindi Trading Co., Ltd., Hangzhou Xihu Tiandi Management Co., Ltd., Shanghai IPO Food & Beverage Co., Ltd., Shanghai Rui Qiao Property Development Co., Ltd., Shanghai Shui On Club Business Management Co., Ltd., 上海豐誠物業管理有限公司(Shanghai Feng Cheng Property Management Co., Ltd.*), 上海瑞安房地產發展有限公司(Shui On Development Limited*), 武漢瑞安天地商貿有限公司(Wuhan Shui On Tian Di Trading Co., Ltd.*), Wuhan Shuion Shangqi Real Estate Management Co., Ltd., 上海瑞橋企業管理有限公司(Shanghai Rui Qiao Enterprise Management Co., Ltd.), 上海瑞展教育信息諮詢有限公司(Shanghai Rui Zhan Education Information Consultant Co., Ltd.), Shanghai Best Scene Retail Asset Management Ltd, Shanghai Rui Chen Property Co., Ltd., Shanghai Ji-Xing Properties Co., Ltd., Shanghai Bai-Xing Properties Co., Ltd., Shanghai Xin-tian-di Plaza Co., Ltd., Shanghai Xing-Qi Properties Co., Ltd., Shanghai Xing Bang Properties Co., Ltd., Shanghai Tai Ping Qiao Properties Management Co., Ltd., 上海新天地商業管理有限公司(Shanghai Xintiandi Management Limited*), Wuhan Shui On Tiandi Property Development Co., Ltd., 上海百麗房地產開發有限公司(Shanghai Baili Property Development Co., Ltd.*), 上海豐誠楊浦物業管理有限公司(Shanghai Feng Cheng Yang Pu Property Management Co., Ltd*) and 上海瑞安創智商業經營管理有限公司(Shanghai Rui An Chuang Zhi Business Management Co., Ltd.*) which are wholly foreign owned enterprises.
- Except for Shui On Development (Holding) Limited and Shui On development (Singapore) Pte. Limited, none of the subsidiaries had any debt securities subsisting at 31 December 2013 or at any time during the year.
- The holders of Class B ordinary shares of Grand Hope Limited have attributable interests in the Chongqing Super High Rise Project whereas the holders of Class A ordinary shares of Grand Hope Limited have attributable interests in the Chongqing Shui On Tiandi Property Development Co., Ltd. other than the Chongqing Super High Rise Project.
- The Class A ordinary shares of Billion China Investments Limited confers on its holders rights attributable to Crown Fame Limited ("Crown Fame")'s 90% interest in Fo Shan Shui On Property Development Co. Ltd. ("Foshan Shui On") whereas the Class B ordinary shares of Billion China Investments Limited confers on its holders rights attributable to (i) Crown Fame's 90% interests in Foshan Shui On pertaining to the land lots in Foshan other than Lots 6 and 16 and (ii) Crown Fame's interests in the Foshan PRC project companies other than Foshan Shui On.
- The Class A ordinary shares of Magic Bright Investments Limited confers on its holders rights attributable to Regal Victory Limited ("Regal Victory")'s 92% interest in Fo Shan Yong Rui Tian Di Property Development Co., Ltd. ("Foshan Yong Rui") whereas the Class B ordinary shares of Magic Bright Investments Limited confers on its holders rights attributable to Regal Victory's interests in the Foshan PRC project companies other than Foshan Yong Rui.
- The Group holds 51% equity interest in Portspin Limited, which indirectly holds 98% equity interest in Shanghai Jun Xing Property Development Co., Ltd.. The Group's effective interest in Shanghai Jun Xing Property Development Co., Ltd. is therefore 49.98%.

* For identification purposes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2013

45. Particulars of the Principal Subsidiaries (Continued)

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Proportion of equity interest held by non-controlling shareholders		Profit (loss) allocated to non-controlling shareholders		Accumulated non-controlling interests	
	At 31 December		Year ended 31 December		At 31 December	
	2013	2012	2013	2012	2013	2012
			RMB'million	RMB'million	RMB'million	RMB'million
Fieldcity	25.0%	25.0%	173	143	665	492
Foresight	20.2%	20.2%	26	7	386	357
Score High	19.8%	19.8%	41	154	652	611
Shanghai Jiu Hai	20.0%	20.0%	35	31	574	552
Individually immaterial subsidiaries with non-controlling interests	N/A	N/A	(9)	(28)	648	682
			266	307	2,925	2,694

Summarised consolidated financial information in respect of Fieldcity is set out below. The summarised financial information below represents amounts before intragroup eliminations:

	At 31 December	
	2013	2012
	RMB'million	RMB'million
Current assets	4,857	3,341
Non-current assets	4,289	3,833
Current liabilities	4,203	3,228
Non-current liabilities	2,284	1,977
Equity attributable to shareholders of Fieldcity	2,659	1,969

	Year ended 31 December	
	2013	2012
	RMB'million	RMB'million
Revenue	1,620	1,410
Profit and total comprehensive income for the year	690	573
Net cash from operating activities	798	336
Net cash used in investing activities	(330)	(873)
Net cash from financing activities	169	608
Net cash inflow	637	71

45. Particulars of the Principal Subsidiaries (Continued)

Summarised consolidated financial information in respect of Foresight is set out below. The summarised financial information below represents amounts before intragroup eliminations:

	At 31 December	
	2013 RMB'million	2012 RMB'million
Current assets	10,921	7,525
Non-current assets	1,550	1,463
Current liabilities	2,995	4,714
Non-current liabilities	7,859	2,785
Equity attributable to:		
Shareholders of Foresight	1,545	1,422
Non-controlling interests	72	67
	1,617	1,489

	Year ended 31 December	
	2013 RMB'million	2012 RMB'million
Revenue	74	331
Profit and total comprehensive income for the year	124	21
Attributable to:		
Shareholders of Foresight	123	20
Non-controlling interests	1	1
	124	21
Net cash from (used in) operating activities	738	(1,372)
Net cash (used in) from investing activities	(1,559)	203
Net cash from financing activities	915	1,008
Net cash inflow (outflow)	94	(161)

Summarised consolidated financial information in respect of Score High is set out below. The summarised financial information below represents amounts before intragroup eliminations:

	At 31 December	
	2013 RMB'million	2012 RMB'million
Current assets	4,483	5,783
Non-current assets	6,610	4,821
Current liabilities	4,954	6,378
Non-current liabilities	3,346	1,724
Equity attributable to:		
Shareholders of Score High	2,667	2,364
Non-controlling interests	126	138
	2,793	2,502

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2013

45. Particulars of the Principal Subsidiaries (Continued)

	Year ended 31 December	
	2013	2012
	RMB'million	RMB'million
Revenue	4,318	1,219
Profit for the year	260	441
Other comprehensive income for the year	31	–
Profit and total comprehensive income for the year	291	441
Attributable to:		
Shareholders of Score High	303	362
Non-controlling interests	(12)	79
	291	441
Net cash from operating activities	382	590
Net cash used in investing activities	(1,543)	(448)
Net cash from (used in) financing activities	1,253	(8)
Net cash inflow	92	134

Summarised consolidated financial information in respect of Shanghai Jiu Hai is set out below. The summarised financial information below represents amounts before intragroup eliminations:

	At 31 December	
	2013	2012
	RMB'million	RMB'million
Current assets	216	177
Non-current assets	3,493	3,482
Current liabilities	61	147
Non-current liabilities	721	703
Equity attributable to shareholders of Shanghai Jiu Hai	2,927	2,809

	Year ended 31 December	
	2013	2012
	RMB'million	RMB'million
Revenue	156	156
Profit and total comprehensive income for the year	186	181
Dividend paid to a non-controlling shareholder of Shanghai Jiu Hai	13	–
Net cash from operating activities	195	37
Net cash used in investing activities	(37)	(32)
Net cash used in financing activities	(166)	(23)
Net cash outflow	(8)	(18)

46. Comparative Figures

Certain comparative figures in the consolidated statement of cash flows have been restated to conform with current year's presentation.

Deloitte.

德勤

To the Shareholders of Shui On Land Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shui On Land Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 130 to 206, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 International Financial Reporting Standards 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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International 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

28 March 2013



Consolidated Income Statement

For the year ended 31 December 2012

		2012	2011
	Notes	RMB'million	RMB'million
Turnover			
– The Company and its subsidiaries ("the Group")		4,821	8,484
– Share of associates		271	179
		5,092	8,663
Turnover of the Group	5	4,821	8,484
Cost of sales		(2,761)	(4,783)
Gross profit		2,060	3,701
Other income	6	282	244
Selling and marketing expenses		(207)	(195)
General and administrative expenses		(738)	(634)
Operating profit	7	1,397	3,116
Increase in fair value of investment properties	13	2,698	2,696
Gain on disposal of investment properties		–	17
Share of results of associates	17	82	137
Finance costs, inclusive of exchange differences	8	(459)	94
Profit before taxation		3,718	6,060
Taxation	9	(1,363)	(2,062)
Profit for the year		2,355	3,998
Attributable to:			
Shareholders of the Company		2,029	3,428
Owners of perpetual capital securities		19	–
Other non-controlling shareholders of subsidiaries		307	570
		326	570
		2,355	3,998
Earnings per share	12		
– Basic		RMB0.35	RMB0.66
– Diluted		RMB0.31	RMB0.58

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

		2012	2011
	Notes	RMB'million	RMB'million
Profit for the year		2,355	3,998
Other comprehensive (expense) income			
Exchange difference arising on translation of foreign operations		(52)	5
Fair value adjustments on interest rate swaps designated as cash flow hedges	33	54	68
Net adjustment of hedge reserve reclassified to profit or loss upon early termination of interest rate swaps	33	(47)	–
Other comprehensive (expense) income for the year		(45)	73
Total comprehensive income for the year		2,310	4,071
Total comprehensive income attributable to:			
Shareholders of the Company		1,984	3,501
Owners of perpetual capital securities		19	–
Other non-controlling shareholders of subsidiaries		307	570
		326	570
		2,310	4,071



Consolidated Statement of Financial Position

As of 31 December 2012

	Notes	2012 RMB'million	2011 RMB'million
Non-current assets			
Investment properties	13	46,624	36,395
Property, plant and equipment	14	3,782	1,079
Prepaid lease payments	15	671	500
Interests in associates	17	1,264	1,057
Loans to associates	17	1,659	1,366
Accounts receivable	19	102	86
Pledged bank deposits	20	1,720	1,143
Deferred tax assets	34	93	154
		55,915	41,780
Current assets			
Properties under development for sale	16	20,150	17,247
Properties held for sale	21	3,274	987
Accounts receivable, deposits and prepayments	19	2,606	2,503
Loans receivable	22	–	152
Amounts due from associates	17	484	446
Amounts due from related companies	23	210	212
Amounts due from non-controlling shareholders of subsidiaries	24	65	50
Pledged bank deposits	20	443	1,369
Restricted bank deposits	20	183	335
Bank balances and cash	20	6,287	3,523
		33,702	26,824
Current liabilities			
Accounts payable, deposits received and accrued charges	25	7,903	5,068
Amounts due to related companies	23	782	368
Amounts due to associates	17	11	5
Amounts due to non-controlling shareholders of subsidiaries	24	530	404
Tax liabilities		908	1,855
Bank borrowings – due within one year	27	5,103	8,774
Convertible bonds	30	2,346	–
Notes	31	2,980	–
		20,563	16,474
Net current assets		13,139	10,350
Total assets less current liabilities		69,054	52,130

	Notes	2012 RMB'million	2011 RMB'million
Capital and reserves			
Share capital	28	114	102
Reserves		31,367	27,843
Equity attributable to shareholders of the Company		31,481	27,945
Perpetual capital securities	32	3,093	–
Other non-controlling shareholders of subsidiaries		2,694	1,526
		5,787	1,526
Total equity		37,268	29,471
Non-current liabilities			
Bank and other borrowings – due after one year	27	13,700	7,969
Convertible bonds	30	–	2,225
Notes	31	10,539	6,520
Derivative financial instruments designated as hedging instruments	33	23	150
Loans from non-controlling shareholders of subsidiaries	26	2,484	2,078
Deferred tax liabilities	34	5,028	3,710
Defined benefit liabilities	35	12	7
		31,786	22,659
Total equity and non-current liabilities		69,054	52,130

The consolidated financial statements on pages 130 to 206 were approved and authorised for issue by the Board of Directors on 28 March 2013 and are signed on its behalf by:

Vincent H. S. LO
DIRECTOR

Daniel Y. K. WAN
DIRECTOR



Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to shareholders of the Company												Perpetual capital securities RMB' million (note 32)	Other non-controlling shareholders of subsidiaries RMB' million	Sub-total RMB' million	Total RMB' million
	Share capital RMB' million	Share premium RMB' million	Merger reserve RMB' million (note 29(a))	Special reserve RMB' million (note 29(b))	Share option reserve RMB' million	Exchange reserve RMB' million	Convertible bond reserve RMB' million	Hedge reserve RMB' million	Other reserves RMB' million (note 29(c))	Retained earnings RMB' million	Sub-total RMB' million					
At 1 January 2011	102	12,985	122	(71)	155	15	605	(98)	637	10,368	24,820	-	1,208	1,208	26,028	
Profit for the year	-	-	-	-	-	-	-	-	-	3,428	3,428	-	570	570	3,998	
Exchange difference arising on translation of foreign operations	-	-	-	-	-	5	-	-	-	-	5	-	-	-	5	
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 33)	-	-	-	-	-	-	68	-	-	-	68	-	-	-	68	
Total comprehensive income for the year	-	-	-	-	-	5	68	-	-	3,428	3,501	-	570	570	4,071	
Recognition of equity-settled share-based payment expenses	-	-	-	-	15	-	-	-	-	-	15	-	-	-	15	
Capital injection	-	-	-	-	-	-	-	-	-	-	-	-	26	26	26	
Acquisition of additional interests in a subsidiary (note 36(b)(iii))	-	-	-	(104)	-	-	-	-	-	-	(104)	-	(274)	(274)	(378)	
Release of special reserve upon disposal of the related assets	-	-	-	40	-	-	-	-	-	-	40	-	-	-	40	
Dividend paid to a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(4)	(4)	(4)	
Total dividends of HK\$0.075 paid, comprising 2010 final dividend of HK\$0.05 per share and 2011 interim dividend of HK\$0.025 per share	-	-	-	-	-	-	-	-	-	(327)	(327)	-	-	-	(327)	
At 31 December 2011	102	12,985	122	(135)	170	20	605	(30)	637	13,469	27,945	-	1,526	1,526	29,471	
Profit for the year	-	-	-	-	-	-	-	-	-	2,029	2,029	19	307	326	2,355	
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(52)	-	-	-	-	(52)	-	-	-	(52)	
Fair value adjustments on interest rate swaps designated as cash flow hedges (note 33)	-	-	-	-	-	-	54	-	-	-	54	-	-	-	54	
Net adjustment of hedge reserve reclassified to profit or loss upon early termination of interest rate swaps (note 33)	-	-	-	-	-	-	(47)	-	-	-	(47)	-	-	-	(47)	
Total comprehensive income for the year	-	-	-	-	-	(52)	7	-	-	2,029	1,984	19	307	326	2,310	
Recognition of equity-settled share-based payment expenses	-	-	-	-	18	-	-	-	-	-	18	-	-	-	18	
Issue of new shares	10	1,756	-	-	-	-	-	-	-	-	1,766	-	-	-	1,766	
Capital injection	-	-	-	-	-	-	-	-	-	-	-	-	32	32	32	
Acquisition of subsidiaries (Note 36(a))	-	-	-	-	-	-	-	-	-	-	-	-	661	661	661	
Acquisition of additional interests in a subsidiary (note 36(b)(i))	-	-	-	-	-	-	-	-	(188)	-	(188)	-	188	188	-	
Partial disposal of equity interests in subsidiaries (note 36(d))	-	-	-	-	-	-	-	-	138	-	138	-	-	-	138	
Issue of perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	3,137	-	3,137	3,137	
Expenses on issue of perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	(63)	-	(63)	(63)	
Dividend paid to a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(20)	(20)	(20)	
Total dividends of HK\$0.125 paid, comprising 2011 final dividend of HK\$0.10 per share and 2012 interim dividend of HK\$0.025 per share	-	-	-	-	-	-	-	-	-	(595)	(595)	-	-	-	(595)	
Shares issued in lieu of cash dividend	2	411	-	-	-	-	-	-	-	-	413	-	-	-	413	
At 31 December 2012	114	15,152	122	(135)	188	(32)	605	(23)	587	14,903	31,481	3,093	2,694	5,787	37,268	

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012	2011
	RMB'million	RMB'million
Operating activities		
Profit before taxation	3,718	6,060
Adjustments for:		
Depreciation of property, plant and equipment	176	67
Release of prepaid lease payments	2	2
Net foreign exchange gain	(11)	(125)
Share of results of associates	(82)	(137)
Loss on disposal of property, plant and equipment	1	–
Gain on disposal of investment properties	–	(17)
Finance costs, inclusive of exchange differences	459	(94)
Interest income	(181)	(152)
Increase in fair value of investment properties	(2,698)	(2,696)
Increase in defined benefit liabilities	5	2
Equity-settled share-based payment expenses	18	15
Gain on acquisition of subsidiaries	(50)	–
Release of special reserve	–	40
Operating cash flows before movements in working capital	1,357	2,965
(Increase) decrease in accounts receivable, deposits and prepayments	(87)	1,079
Increase in properties under development for sale	(6,712)	(7,010)
Decrease in properties held for sale	2,178	4,485
Decrease (increase) in restricted bank deposits	152	(92)
Decrease (increase) in amounts due from related companies	79	(163)
(Decrease) increase in amounts due to related companies	(41)	273
Increase in amounts due from associates	(38)	–
Increase (decrease) in amounts due to associates	6	(24)
Increase (decrease) in accounts payable, deposits received and accrued charges	2,587	(265)
Cash (used in) generated from operations	(519)	1,248
Tax paid	(1,704)	(720)
Net cash (used in) from operating activities	(2,223)	528



Consolidated Statement of Cash Flows
For the year ended 31 December 2012

	Notes	2012 RMB'million	2011 RMB'million
Investing activities			
Interest received		137	119
Purchase of property, plant and equipment		(464)	(237)
Additions to investment properties		(3,617)	(7,280)
Proceeds from disposal of investment properties		24	613
Additions to prepaid lease payments		–	(434)
Advances of loans to associates		(374)	(120)
Cash inflow from acquisition of subsidiaries	36(a)	111	–
Net cash inflow on disposal of subsidiaries	36(c)	–	342
Withdrawal of pledged bank deposits		1,895	645
Placement of pledged bank deposits		(1,546)	(1,272)
Repayment of loans receivable		152	445
Net cash used in investing activities		(3,682)	(7,179)
Financing activities			
Advance from non-controlling shareholders of subsidiaries		193	410
Repayment to non-controlling shareholders of subsidiaries		(15)	(733)
Capital injected by non-controlling shareholders of subsidiaries		32	26
Deposit received in respect of partial disposal of equity interests in subsidiaries	25(b)	–	352
Proceeds received in respect of partial disposal of equity interests in subsidiaries	36(d)	138	–
New bank borrowings raised		10,001	6,106
Repayment of bank and other borrowings		(9,066)	(2,082)
Issue of notes	31	6,952	3,500
Expenses on issue of notes	31	(137)	(70)
Issue of perpetual capital securities		3,137	–
Expenses on issue of perpetual capital securities		(63)	–
Settlement of interest rate swaps designated as cash flow hedges		(73)	–
Interest paid		(2,220)	(1,547)
Payment of dividends		(182)	(327)
Dividend payment to a non-controlling shareholder of a subsidiary		(20)	(4)
Net cash from financing activities		8,677	5,631
Net increase (decrease) in cash and cash equivalents		2,772	(1,020)
Cash and cash equivalents at the beginning of the year		3,523	4,662
Effect of foreign exchange rate changes		(8)	(119)
Cash and cash equivalents at the end of the year		6,287	3,523
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		6,287	3,523

1. General

Shui On Land Limited (the “Company”) was incorporated on 12 February 2004 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 4 October 2006. The Directors of the Company consider that its ultimate holding company is Shui On Company Limited (“SOCL”), a private limited liability company incorporated in the British Virgin Islands, after the completion of the acquisition of subsidiaries as described in note 36(a).

The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company acts as an investment holding company. The principal activities of the Company’s subsidiaries are set out in note 46. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2. Application of New and Revised International Financial Reporting Standards (“IFRSs”)

In the current year, the Group has applied the following amendments to IFRSs, which are effective for the Group’s financial year beginning on 1 January 2012.

Amendments to IFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to International Accounting Standards (“IAS”) 12 Deferred Tax: Recovery of Underlying Assets. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 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 Group measures its investment properties using the fair value model. As a result of the application of the amendments to IAS 12, the Directors reviewed the Group’s investment property portfolios and concluded that the investment properties held by the Group at the end of the reporting period, which are located in the People’s Republic of China (“PRC”), are under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to IAS 12 is rebutted. Accordingly, the application of the amendments to IAS 12 does not have significant impact on the results and financial positions of the Group.



2. Application of New and Revised International Financial Reporting Standards (“IFRSs”) (Continued)

Other than the above, the application of the above amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009 - 2011 Cycle ¹
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities ¹
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures ³
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ²
IFRS 9	Financial Instruments ³
IFRS 10	Consolidated Financial Statements ¹
IFRS 11	Joint Arrangements ¹
IFRS 12	Disclosure of Interests in Other Entities ¹
IFRS 13	Fair Value Measurement ¹
IAS 19 (as revised in 2011)	Employee Benefits ¹
IAS 27 (as revised in 2011)	Separate Financial Statements ¹
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income ⁴
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities ²
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013

² Effective for annual periods beginning on or after 1 January 2014

³ Effective for annual periods beginning on or after 1 January 2015

⁴ Effective for annual periods beginning on or after 1 July 2012

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in November 2009 and revised in October 2010. It introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at either amortised 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 amortised cost at the end of subsequent accounting period. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting period. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The Directors of the Company anticipate that IFRS 9 will be adopted in the Group’s consolidated financial statements for the annual period beginning on 1 January 2015 and that the application of this new Standard will not have a significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities.

2. Application of New and Revised International Financial Reporting Standards (“IFRSs”) (Continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. The Standing Interpretations Committee (“SIC”) 12 Consolidation - Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

The Directors of the Company anticipate that the application of IFRS 10 may have significant impact on the amounts reported in the consolidated financial statements. Specifically, the application of IFRS 10 may affect the accounting for the Group’s ownership interest in Richcoast Group Limited (“Richcoast”) that is currently classified as the Group’s associate. Taking into account the new definition of control and the additional guidance on control set out in IFRS 10, the application of IFRS 10 may result in significant impact if Richcoast is considered as a subsidiary of the Group under the new accounting standard. If Richcoast is consolidated as the Group’s subsidiary, the assets and liabilities as well as income and expenses of Richcoast will be presented as separate line items in the consolidated statement of financial position and in the consolidated statement of comprehensive income, respectively, rather than being presented as one line item in the Group’s consolidated financial statements. A detailed review is being performed by the Directors to determine and quantify the impact of the application of IFRS 10.

IFRS 13 Fair Value Measurement

IFRS 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 IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 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 IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

IFRS 13 will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the valuation of the investment properties of the Group, which are measured at fair value at the end of each reporting period, and result in more extensive disclosures in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 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 IAS 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 IAS 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 IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The Directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the results and the financial position of the Group.



3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and derivative financial instruments which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with IFRSs. 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 significant accounting policies adopted are set out as follows:

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 expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the end of previous reporting period or when they first came under common control, whichever is shorter.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted, based on the carrying amount of the net assets attributable to the change in interests, and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

3. Significant Accounting Policies (Continued)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.



3. Significant Accounting Policies (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Construction costs incurred for investment properties under construction or development are capitalised as part of the carrying amount of the investment properties under construction or development.

Subsequent to initial recognition, investment properties are measured at their fair values at the end of each reporting period using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the consolidated income statement for the period in which they arise.

An investment property is derecognised 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 asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Hotels under development held for owner's operation are stated at cost less subsequent accumulated impairment losses, if any. Cost comprises development expenditure including professional charges directly attributable to the development and borrowing cost capitalised during the development period. No depreciation is provided on the cost of building until hotel operation commences.

Depreciation is recognised so as to write off the cost of buildings and hotel properties over their estimated useful lives or where shorter, the terms of leasehold land where the buildings and hotel properties are located, using the straight-line method.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than buildings, hotel properties and hotels under development, over their estimated useful lives and after taking into account their estimated residual value, 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.

An item of property, plant and equipment is derecognised 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 derecognition of the asset (calculated as the difference between the sales proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments for leasehold land classified as operating leases are charged to the consolidated income statement on a straight-line basis over the period of the land use rights.

Properties under development for sale

Properties under development which are intended to be held for sale are carried at lower of cost and net realisable value and are shown as current assets. Cost includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalised during construction period.

Properties under development for sales are transferred to properties held for sale when the relevant completion certificates are issued by the respective government authorities.

3. Significant Accounting Policies (Continued)

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to the properties held for sale. Net realised value is determined based on prevailing market conditions.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, forms part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, forms part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.



3. Significant Accounting Policies (Continued)

Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised 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 recognised immediately in the consolidated income statement.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised 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 recognised 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 accounts receivable, loans receivable, loans to associates, amounts due from associates, amounts due from related companies, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables 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 loans and receivables, the estimated future cash flows of loans and receivables have been affected.

The 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 and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

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 receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised 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 loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of the amount due from a jointly controlled entity and trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement. When the amount due from a jointly controlled entity and trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

If, in a subsequent period, the amount of impairment loss of loans and receivables decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had no impairment loss been recognised.

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 entered into 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.

Perpetual capital securities issued by the Group, which includes no contractual obligation for the Group to deliver cash or another financial asset to the holders or to exchange financial assets or financial liabilities with the holders under conditions that are potentially unfavourable to the Group, are classified as equity instruments and are initially recorded at the proceeds received.



3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised 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 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 recognised on an effective interest basis.

Convertible bonds

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled 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 classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into the Company's own equity instruments, is included in equity (convertible bond equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond equity reserve until the embedded option is exercised (in which case the balance stated in convertible bond equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Notes

Notes issued by the Group are measured at amortised cost, using the effective interest method. Transaction costs are included in the carrying amount of the notes and amortised over the period of the notes using the effective interest method.

Other financial liabilities

The Group's other financial liabilities (including accounts payable, amounts due to related companies, amounts due to associates, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in consolidated income statement depends on the nature of the hedge relationship.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Derivative financial instruments and hedging (Continued)

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges. At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in other comprehensive income and accumulated in hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement as part of other income or other expenses. Amounts previously recognised in other comprehensive income and accumulated in hedge reserve are reclassified in the consolidated income statement in the periods when the hedged item is recognised in the consolidated income statement.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in hedge reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated income statement.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

The Group derecognises 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

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 recognised in other comprehensive income and accumulated in equity is recognised in the consolidated income statement.

The Group derecognises 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 derecognised and the consideration paid and payable is recognised in the consolidated income statement.



3. Significant Accounting Policies (Continued)

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 recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Taxation

Taxation 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 income statement 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 recognised 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 recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised 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 recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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 and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise 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 realised, 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.

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 IAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in the consolidated income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised 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 on the 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 recognised in the consolidated income statement 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 except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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. RMB) 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 period, 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 recognised in other comprehensive income and accumulated in equity (the exchange reserve). The exchange differences accumulated in equity in respect of the foreign operation are reclassified from equity to profit or loss on disposal of the foreign operation.

Equity-settled share-based payment transactions

Share options granted to employees (including Directors)

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in consolidated income statement, such that the cumulative expenses reflects the revised estimates, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.



3. Significant Accounting Policies (Continued)

Equity-settled share-based payment transactions (Continued)

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, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's defined benefit obligations and the fair value of plan assets at the end of the previous reporting period are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Government grants

Government grants are recognised in the consolidated income statement over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable for expenses or losses already incurred are recognised in the consolidated income statement in the period when they become receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from properties developed for sale in the ordinary business is recognised upon delivery of properties to the purchasers pursuant to the sales agreements.

Rental income from properties under operating leases is recognised in the consolidated income statement 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 assets and recognised on straight-line basis over the lease term.

Revenue from hotel operation is recognised when the relevant services are provided.

Property management fee income and rental related income are recognised as revenue in the consolidated income statement when the services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that 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.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, the Directors of the Company are required to make judgements, estimate 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), 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 recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that 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. As at 31 December 2012, the Group has recognised deferred taxes on revaluation of investment properties amounted to RMB3,728 million (2011: RMB2,526 million).

Perpetual capital securities

Pursuant to the terms of the Perpetual Capital Securities (as defined in note 32), a subsidiary of the Company, as an issuer of the Perpetual Capital Securities, can at its option redeem the Perpetual Capital Securities and at its discretion defer distributions on the Perpetual Capital Securities. However, the Company and the issuer will not be able to declare or pay any dividends if any distributions on the Perpetual Capital Securities are unpaid or deferred. In the opinion of the Directors of the Company, this restriction does not result in the Group having an obligation to redeem the Perpetual Capital Securities or make any distributions on the Perpetual Capital Securities. Accordingly, the Perpetual Capital Securities are classified as equity instruments. The carrying amount of the Perpetual Capital Securities is RMB3,093 million (2011: nil). Details of which are set out in note 32.

Key sources of estimation uncertainty

The following and those disclosed in note 40(b) 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.

Investment properties

The fair values of completed investment properties and certain investment properties under construction or development that are measured using the fair value model are determined based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the Directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation reflect market condition. The basis of valuation is disclosed in note 13. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated income statement.



4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty (Continued)

Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and the Group has not finalised its land appreciation tax calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation tax and its related income tax provisions. The Group recognised the land appreciation tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax provisions in the periods in which such tax is finalised with local tax authorities.

5. Turnover and Segmental Information

An analysis of the turnover of the Group and share of turnover of associates for the year is as follows:

	2012			2011		
	Group	Share of associates	Total	Group	Share of associates	Total
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Property development:						
Property sales	3,541	244	3,785	7,581	160	7,741
Property investment:						
Rental income received from investment properties	952	27	979	744	19	763
Income from hotel operations	193	–	193	14	–	14
Property management fee income	36	–	36	38	–	38
Rental related income	68	–	68	53	–	53
	1,249	27	1,276	849	19	868
Others	31	–	31	54	–	54
Total	4,821	271	5,092	8,484	179	8,663

For management purposes, the Group is organised based on its business activities, which are broadly categorised into property development and property investment.

Principal activities of the two major reportable and operating segments are as follows:

Property development – development and sale of properties, mainly residential units

Property investment – offices and retail shops letting, property management and hotel operations

5. Turnover and Segmental Information (Continued)

For the year ended 31 December 2012

	Reportable Segment				Consolidated RMB'million
	Property development RMB'million	Property investment RMB'million	Total RMB'million	Others RMB'million	
Segment Revenue					
Turnover of the Group	3,541	1,249	4,790	31	4,821
Share of turnover of associates	244	27	271	–	271
Total segment revenue	3,785	1,276	5,061	31	5,092
Results					
Segment results of the Group	928	3,301	4,229	19	4,248
Interest income					181
Gain on acquisition of subsidiaries					50
Share of results of associates					82
Finance costs, inclusive of exchange differences					(459)
Net unallocated expenses					(384)
Profit before taxation					3,718
Taxation					(1,363)
Profit for the year					2,355
Other Information					
Amounts included in the measure of segment profit or loss or segment assets:					
Capital additions of completed investment properties and property, plant and equipment	58	4,918	4,976	495	5,471
Development costs for investment properties under construction or development and prepaid lease payments	–	4,904	4,904	–	4,904
Development costs for properties under development for sale	7,614	–	7,614	–	7,614
Depreciation of property, plant and equipment	63	100	163	13	176
Release of prepaid lease payments charged to consolidated income statement	–	2	2	–	2
Increase in fair value of investment properties	–	2,698	2,698	–	2,698
Financial Position					
Assets					
Segment assets	25,981	50,200	76,181	5	76,186
Interests in associates					1,264
Loans to associates					1,659
Amounts due from associates					484
Unallocated corporate assets					10,024
Consolidated total assets					89,617
Liabilities					
Segment liabilities	(6,900)	(736)	(7,636)	(2)	(7,638)
Amounts due to associates					(11)
Unallocated corporate liabilities					(44,700)
Consolidated total liabilities					(52,349)



5. Turnover and Segmental Information (Continued)

For the year ended 31 December 2011

	Reportable Segment				Consolidated RMB'million
	Property development RMB'million	Property investment RMB'million	Total RMB'million	Others RMB'million	
Segment Revenue					
Turnover of the Group	7,581	849	8,430	54	8,484
Share of turnover of associates	160	19	179	–	179
Total segment revenue	7,741	868	8,609	54	8,663
Results					
Segment results of the Group	2,781	3,190	5,971	43	6,014
Interest income					152
Share of results of associates					137
Finance costs, inclusive of exchange differences					94
Net unallocated expenses					(337)
Profit before taxation					6,060
Taxation					(2,062)
Profit for the year					3,998
Other Information					
Amounts included in the measure of segment profit or loss or segment assets:					
Capital additions of completed investment properties and property, plant and equipment	14	263	277	5	282
Development costs for investment properties under construction or development and prepaid lease payments	–	8,510	8,510	–	8,510
Development costs for properties under development for sale	7,784	–	7,784	–	7,784
Depreciation of property, plant and equipment	23	32	55	12	67
Release of prepaid lease payments charged to consolidated income statement	–	2	2	–	2
Increase in fair value of investment properties	–	2,696	2,696	–	2,696
Financial Position					
Assets					
Segment assets	20,832	38,067	58,899	27	58,926
Interests in associates					1,057
Loans to associates					1,366
Amounts due from associates					446
Unallocated corporate assets					6,809
Consolidated total assets					68,604
Liabilities					
Segment liabilities	(4,110)	(768)	(4,878)	(1)	(4,879)
Amounts due to associates					(5)
Unallocated corporate liabilities					(34,249)
Consolidated total liabilities					(39,133)

5. Turnover and Segmental Information (Continued)

Segment revenue represents the turnover of the Group and the share of turnover of associates.

Segment profit represents the profit earned by each segment without allocation of central administration costs, Directors' salaries, interest income, gain on acquisition of subsidiaries, share of results of associates, finance costs and exchange differences. This is the measure reported to the chief operating decision makers who are the Executive Directors of the Company for the purpose of resource allocation and performance assessment.

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than interests in associates, loans to associates, amounts due from associates, amounts due from non-controlling shareholders of subsidiaries, deferred tax assets, amounts due from related companies, pledged bank deposits, restricted bank deposits, bank balances and cash and other unallocated corporate assets; and
- all liabilities are allocated to reportable segments other than amounts due to associates, amounts due to related companies, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries, bank and other borrowings, tax liabilities, deferred tax liabilities, derivative financial instruments designated as hedging instruments and other unallocated corporate liabilities.

Over 90% of the Group's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly, no analysis of geographical segment is presented.

No geographical segment information of the Group's non-current assets is shown as the assets are substantially located in the PRC.

6. Other Income

	2012 RMB'million	2011 RMB'million
Interest income from banks	78	84
Interest income from amounts due from associates (notes 17 and 41)	17	9
Interest income from loans to associates (notes 17 and 41)	38	26
Interest income from a related company (notes 23 and 41)	4	–
Imputed interest income from loans to associates (notes 17 and 41)	44	33
Sundry income	14	89
Grants received from local government	37	3
Gain on acquisition of subsidiaries (note 36(a))	50	–
	282	244



7. Operating Profit

	2012	2011
	RMB'million	RMB'million
Operating profit has been arrived at after charging (crediting):		
Auditor's remuneration	5	5
Depreciation of property, plant and equipment	177	69
Less: Amount capitalised to properties under development for sale	(1)	(2)
	176	67
Release of prepaid lease payments	14	7
Less: Amount capitalised to property, plant and equipment	(12)	(5)
	2	2
Loss on disposal of property, plant and equipment	1	–
Employee benefits expenses		
Directors' emoluments		
Fees	2	2
Salaries, bonuses and allowances	29	21
Retirement benefits costs	2	2
Share-based payment expenses	6	(4)
	39	21
Other staff costs		
Salaries, bonuses and allowances	404	346
Retirement benefits costs	27	23
Share-based payment expenses	12	19
	443	388
Total employee benefits expenses	482	409
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	(146)	(106)
	336	303
Cost of properties sold recognised as an expense	2,178	4,485
Minimum lease payment under operating leases	43	40

8. Finance Costs, Inclusive of Exchange Differences

	2012 RMB'million	2011 RMB'million
Interest on bank loans		
– wholly repayable within five years	910	669
– not wholly repayable within five years	153	121
Interest on loans from non-controlling shareholders of subsidiaries wholly repayable within five years (note 26)	151	151
Imputed interest on loan from a non-controlling shareholder of a subsidiary (note 26)	15	–
Interest on amount due to a related company (notes 23 and 41)	5	–
Interest on convertible bonds (note 30)	243	230
Interest on notes (note 31)	972	485
Net interest expense from interest rate swaps designated as cash flow hedges	38	144
Total interest costs	2,487	1,800
Less: Amount capitalised to investment properties under construction or development and properties under development for sale	(2,002)	(1,608)
Interest expense charged to consolidated income statement	485	192
Net exchange gain on bank borrowings and other financing activities	(54)	(311)
Others	28	25
	459	(94)

Borrowing costs capitalised during the year ended 31 December 2012 arose on the general borrowing pool of the Group and were calculated by applying a capitalisation rate of approximately 7.6% (2011: 7.2%) per annum to expenditure on the qualifying assets.

9. Taxation

	2012 RMB'million	2011 RMB'million
PRC Enterprise Income Tax		
– Current provision	419	704
Deferred taxation (note 34)		
– Provision for the year	610	717
PRC Land Appreciation Tax		
– Provision for the year	334	641
	1,363	2,062



9. Taxation (Continued)

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

PRC Enterprise Income Tax has been provided for at the applicable income tax rate of 25% (2011: 25%) on the assessable profits of the companies in the Group during the year.

The PRC Enterprise Income Tax Law requires withholding tax to be levied on distribution of profits earned by a PRC entity to a Hong Kong resident company (which is the beneficial owner of the dividend received) for profits generated after 1 January 2008 at the rate of 5%. As at 31 December 2012 and 31 December 2011, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2012 RMB'million	2011 RMB'million
Profit before taxation	3,718	6,060
PRC Enterprise Income Tax at 25% (2011: 25%)	930	1,515
PRC Land Appreciation Tax	334	641
Tax effect of PRC Land Appreciation Tax	(83)	(160)
Deferred tax provided for withholding tax on income derived in the PRC	(1)	68
Tax effect of share of results of associates	(20)	(34)
Tax effect of expenses not deductible for tax purposes	293	211
Tax effect of income not taxable for tax purposes	(77)	(127)
Tax effect of tax losses not recognised	14	2
Tax effect of utilisation of tax losses previously not recognised	(27)	(54)
Tax charge for the year	1,363	2,062

10. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees

The emoluments paid or payable to the Directors of the Company were as follows:

Name of Director	Notes	Performance related						2012 Total	2011 Total
		Fees	Salaries	Other benefits	incentive payments	Retirement benefit costs	Share-based payment expenses		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Vincent H.S. LO	(a)	-	-	-	-	-	-	-	-
Mr. Freddy C.K. LEE	(a)	-	4,235	6,558	4,071	1,872	3,527	20,263	11,249
Mr. Daniel Y.K. WAN	(a)	-	4,833	5,355	3,660	-	2,733	16,581	8,456
Mr. Louis H.W. WONG	(b)	-	-	-	-	-	-	-	(1,143)
Mr. Frankie Y.L. WONG	(c)	366	-	-	-	-	-	366	122
Mr. LEUNG Chun Ying	(d)	-	-	-	-	-	-	-	248
Sir John R.H. BOND	(e)	325	-	-	-	-	-	325	331
Dr. William K.L. FUNG	(e)	366	-	-	-	-	-	366	373
Professor Gary C. BIDDLE	(e)	488	-	-	-	-	-	488	497
Dr. Roger L. McCARTHY	(e)	325	-	-	-	-	-	325	331
Mr. David J. SHAW	(e)	244	-	-	-	-	-	244	248
Dr. Edgar W.K. CHENG	(f)	-	-	-	-	-	-	-	278
Total for 2012		2,114	9,068	11,913	7,731	1,872	6,260	38,958	20,990
Total for 2011		2,428	8,319	8,578	4,438	1,501	(4,274)	20,990	

Notes:

- (a) Executive Directors
- (b) Executive Director resigned during the year 2011
- (c) Non-executive Director appointed during the year 2011
- (d) Non-executive Director resigned during the year 2011
- (e) Independent Non-executive Directors
- (f) Independent Non-executive Director resigned during the year 2011

Mr. Freddy C.K. LEE is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Of the five highest paid individuals in the Group, two (2011: two) are Executive Directors of the Company whose emoluments are set out above. The emoluments of the remaining three (2011: three) individuals are as follows:

	2012	2011
	RMB'million	RMB'million
Salaries	6	7
Other benefits	8	6
Performance related incentive payments	3	2
Retirement benefit costs	2	1
Share-based payment expenses	4	2
	23	18



10. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (Continued)

The emoluments of the remaining highest paid employees were within the following bands:

	2012 Number of employees	2011 Number of employees
Emolument bands		
HK\$6,500,001 – HK\$7,000,000	–	1
HK\$7,000,001 – HK\$7,500,000	–	1
HK\$8,000,001 – HK\$8,500,000	1	1
HK\$9,500,001 – HK\$10,000,000	1	–
HK\$10,500,001 – HK\$11,000,000	1	–
	3	3

No Directors waived any emoluments in the years ended 31 December 2012 and 31 December 2011.

11. Dividends

	2012 RMB'million	2011 RMB'million
Interim dividend paid in respect of 2012 of HK\$0.025 per share (2011: HK\$0.025 per share)	122	107
Final dividend proposed in respect of 2012 of HK\$0.035 per share (2011: HK\$0.10 per share)	170	473
	292	580

A final dividend for the year ended 31 December 2012 of HK\$0.035 (equivalent to RMB0.028) per share, amounting to HK\$210 million (equivalent to RMB170 million) in aggregate, was proposed by the Directors on 28 March 2013 and is subject to the approval of the shareholders at the forthcoming annual general meeting.

On 28 March 2013, the Company announced a proposed rights issue of rights shares on the basis of 1 rights share for every 3 existing shares (note 42). If the rights shares (in their fully-paid form) are allotted and issued on or before the record date for the 2012 final dividend and shareholders approve the 2012 final dividend at the forthcoming annual general meeting, then holders of fully-paid rights shares whose names appear on the register of members of the Company on the record date for the 2012 final dividend will be entitled to receive the 2012 final dividend of HK\$0.035 per share on the same basis as holders of existing shares in issue. In such case the aggregate amount of the 2012 final dividend will be approximately HK\$280 million (equivalent to RMB226 million).

In October 2012, an interim dividend in respect of 2012 of HK\$0.025 (equivalent to RMB0.021) per share was paid to the shareholders. The 2012 interim dividend was paid in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their dividend in new, fully paid shares in lieu of all or part of cash. 65.5% of the shareholdings elected to receive shares in lieu of cash dividends at share price of HK\$2.932 per share and accordingly, 33,360,452 new and fully paid ordinary shares of the Company were issued. These new ordinary shares rank pari passu to the existing shares of the Company.

11. Dividends (Continued)

In June 2012, a final dividend in respect of 2011 of HK\$0.10 (equivalent to RMB0.08) per share was approved by the shareholders of the Company at the annual general meeting on 7 June 2012. The 2011 final dividend was paid in July 2012 in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their dividend in new, fully paid shares in lieu of all or part of cash. 70.5% of the shareholdings elected to receive shares in lieu of cash dividends at share price of HK\$3.176 per share and accordingly, 129,436,566 new and fully paid ordinary shares of the Company were issued. These new ordinary shares rank pari passu to the existing shares of the Company.

In October 2011, an interim dividend in respect of 2011 of HK\$0.025 (equivalent to RMB0.021) per share was paid to the shareholders of the Company.

A final dividend in respect of 2010 of HK\$0.05 (equivalent to RMB0.042) per share was approved by the shareholders of the Company at the annual general meeting on 19 May 2011 and was paid to the shareholders of the Company in June 2011.

162,797,018 ordinary shares of the Company in aggregate were issued during the year ended 31 December 2012 on the shareholders' election to receive shares. Details of these shares issuance are set out in note 28.

12. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to shareholders of the Company is based on the following data:

Earnings

	2012 RMB'million	2011 RMB'million
Earnings for the purposes of basic earnings per share and diluted earnings per share, being profit for the year attributable to shareholders of the Company	2,029	3,428

Number of shares

	2012 'million	2011 'million
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,773	5,212
Effect of dilutive potential shares:		
Convertible bonds	696	669
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,469	5,881
Basic earnings per share (note (b))	RMB0.35 HK\$0.43	RMB0.66 HK\$0.80
Diluted earnings per share (note (b))	RMB0.31 HK\$0.38	RMB0.58 HK\$0.70

Notes:

- (a) There are no dilution effects for share options granted as the exercise prices of these share options granted were higher than the average market price for 2012 and 2011.
- (b) The Hong Kong dollar figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.000 to HK\$1.229 for 2012 and RMB1.000 to HK\$1.208 for 2011, being the average exchange rates that prevailed during the respective years.



13. Investment Properties

	Completed investment properties	Investment properties under construction or development at fair value	Investment properties under construction or development at cost	Total
	RMB'million	RMB'million	RMB'million	RMB'million
At 1 January 2011	14,119	6,815	5,959	26,893
Additions	40	4,856	3,220	8,116
Disposal of subsidiaries (note 36(c))	–	–	(348)	(348)
Eliminated upon disposal	(596)	–	–	(596)
Transfers	–	344	(344)	–
Transfer upon completion	2,801	(2,801)	–	–
Transfer to property, plant and equipment (note 14)	(31)	(335)	–	(366)
Increase in fair value recognised in the consolidated income statement	1,648	1,048	–	2,696
At 31 December 2011	17,981	9,927	8,487	36,395
At 31 December 2011				
– Stated at fair value	17,981	9,927	–	27,908
– Stated at cost	–	–	8,487	8,487
At 1 January 2012	17,981	9,927	8,487	36,395
Additions	3	1,981	2,734	4,718
Acquisition of subsidiaries (note 36(a))	2,676	189	–	2,865
Eliminated upon disposal	(24)	–	–	(24)
Transfers	–	1,432	(1,432)	–
Transfer upon completion	773	(773)	–	–
Transfer to property, plant and equipment (note 14)	(28)	–	–	(28)
Increase in fair value recognised in the consolidated income statement	708	1,990	–	2,698
At 31 December 2012	22,089	14,746	9,789	46,624
At 31 December 2012				
– Stated at fair value	22,089	14,746	–	36,835
– Stated at cost	–	–	9,789	9,789

The investment properties are all situated in the PRC and held under long term leases of RMB5,786 million (2011: RMB3,510 million) and medium term leases of RMB40,838 million (2011: RMB32,885 million). All the completed investment properties are rented out under operating leases or are held for capital appreciation purposes.

In circumstances where the fair value of an investment property under construction or development is not reliably determinable, such investment properties under construction or development are measured at cost less impairment, if any, until when its fair value becomes reliably determinable upon finalisation of the development plan, land and relocation cost and construction costs.

The fair values of the Group's investment properties at 31 December 2012 and 31 December 2011 and at dates of transfer upon completion of development of investment properties under construction or development and at the dates of transfer to property, plant and equipment have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited, independent qualified professional valuers not connected to the Group.

13. Investment Properties (Continued)

For completed investment properties, the valuations have been arrived at using direct comparison method and capitalisation of net income method, where appropriate. In the valuation, the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for the similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties.

For investment properties under construction or development that are measured at fair value, the valuations have been arrived at assuming that the investment properties will be completed in accordance with the development proposals and the relevant approvals for the proposals have been obtained. The key inputs in the valuations include the market value of the completed investment properties, which are estimated with reference to sales evidence of similar properties in the nearest locality, with adjustments made to account for differences in locations and other factors specific to the respective properties based on the valuers' judgement. Costs of development are also taken into account including construction costs, finance costs and professional fees, as well as developer's profit margin which reflects the remaining risks associated with the development of the properties at the valuation date and the return that the developer would require for bringing them to completion status, which is determined by the valuers based on its analyses of recent land transactions and market value of similar completed properties in the respective locations.

14. Property, Plant and Equipment

	Land and buildings	Hotel properties	Hotels under development	Furniture, fixtures, equipment and motor vehicles	Total
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
At Cost					
At 1 January 2011	434	91	–	247	772
Transfer from investment properties (note 13)	31	–	335	–	366
Additions	–	–	198	44	242
Disposals	–	–	–	(8)	(8)
At 31 December 2011	465	91	533	283	1,372
Acquisition of subsidiaries (note 36(a))	456	1,826	–	34	2,316
Transfer from investment properties (note 13)	28	–	–	–	28
Transfer from properties under development for sales (note 16)	–	–	46	–	46
Transfer from properties held for sale	15	–	–	–	15
Transfer upon completion	–	623	(623)	–	–
Additions	34	–	343	99	476
Disposals	–	–	–	(11)	(11)
At 31 December 2012	998	2,540	299	405	4,242
Accumulated Depreciation					
At 1 January 2011	38	18	–	176	232
Charge for the year	24	2	–	43	69
Eliminated on disposals	–	–	–	(8)	(8)
At 31 December 2011	62	20	–	211	293
Charge for the year	31	85	–	61	177
Eliminated on disposals	–	–	–	(10)	(10)
At 31 December 2012	93	105	–	262	460
Carrying Values					
At 31 December 2012	905	2,435	299	143	3,782
At 31 December 2011	403	71	533	72	1,079



14. Property, Plant and Equipment (Continued)

The carrying amounts of owner-occupied leasehold land and buildings of RMB593 million (2011: RMB100 million), hotel properties of RMB2,367 million (2011: nil) and hotels under development of RMB41 million (2011: RMB533 million) at the end of the reporting period are included in property, plant and equipment, as in the opinion of the Directors, allocations of the carrying amounts between the leasehold land and buildings elements could not be made reliably.

The land and buildings, hotel properties and hotels under development are all situated in the PRC and held under long term leases of RMB54 million (2011: RMB42 million) and medium term leases of RMB3,585 million (2011: RMB965 million).

The above items of property, plant and equipment, except for hotels under development, are depreciated on a straight-line basis at the following rates per annum:

Land and buildings	Over the shorter of the term of the lease, or 50 years
Hotel properties	Over the shorter of the term of the lease, or 50 years
Furniture, fixtures, equipment and motor vehicles	20% to 33-1/3%

15. Prepaid Lease Payments

	2012 RMB'million	2011 RMB'million
At beginning of the year	500	73
Additions	–	434
Transfer from properties under development for sale (note 16)	185	–
Release for the year (note 7)	(14)	(7)
At end of the year	671	500

The cost of prepaid lease payments represents the amount paid to the government of the PRC in respect of the land use rights held under medium term leases.

16. Properties Under Development for Sale

	2012 RMB'million	2011 RMB'million
At beginning of the year	17,247	14,308
Additions	7,614	7,784
Transfer to property, plant and equipment (note 14)	(46)	–
Transfer to prepaid lease payments (note 15)	(185)	–
Transfer to properties held for sale	(4,480)	(4,845)
At end of the year	20,150	17,247

The properties under development are all situated in the PRC and held under long term leases of RMB18,734 million (2011: RMB15,826 million) and medium term leases of RMB1,416 million (RMB1,421 million).

Included in the properties under development for sale as at 31 December 2012 is carrying value of RMB16,936 million (2011: RMB15,445 million) which represents the carrying value of the properties expected to be completed after more than twelve months from the end of the reporting period.

17. Interests in Associates/Loans to Associates/Amounts Due from Associates/Amounts Due to Associates

	Notes	2012 RMB'million	2011 RMB'million
Cost of investments, unlisted		482	357
Share of post-acquisition profits		782	700
		1,264	1,057
Loans to associates			
– Interest free	(a)	727	808
– Interest bearing ranging from 5% to 6.15% (2011: 5%) per annum	(b)	932	558
		1,659	1,366
Amounts due from associates	(c)	484	446
Amounts due to associates	(d)	11	5

The summarised financial information in respect of the Group's associates is set out below:

	2012 RMB'million	2011 RMB'million
Total assets	12,390	10,868
Total liabilities	(9,493)	(8,294)
Net assets	2,897	2,574
Group's share of net assets of associates	1,264	1,057

	2012 RMB'million	2011 RMB'million
Revenue	565	372
Profit for the year	133	224
Group's share of results of associates for the year	82	137

Notes:

- (a) These loans to associates represent the loans to subsidiaries of Richcoast, an associate of the Group, for financing the development and operation of Dalian Tiandi project in Dalian, the PRC. Pursuant to the joint venture agreement ("Joint Venture Agreement") dated 25 May 2007 entered into among Innovate Zone Group Limited ("Innovate Zone"), an indirect subsidiary of the Company, Main Zone Group Limited ("Main Zone"), a direct wholly-owned subsidiary of SOCAM Development Limited ("SOCAM", an associate of SOCL) and Many Gain International Limited ("Many Gain"), an independent third party, the loans are unsecured, interest-free and with no fixed terms of repayment until Many Gain has contributed its share of the shareholder's loan to the subsidiaries of Richcoast. Thereafter, the loans will bear interest at a rate of 5% per annum, subject to shareholders' approval. The loans are carried at amortised cost using the effective interest rate of 7.29% (2011: 5.4%) per annum.
- (b) These loans to associates, represent the loans to subsidiaries of Richcoast, are unsecured, interest bearing ranging from 5% to 6.15% (2011: 5%) per annum and with no fixed terms of repayment.
- (c) The amounts due from associates are unsecured, interest bearing at 6.1% (2011: 6.1%) per annum and repayable on demand.
- (d) The amounts due to associates are unsecured, interest free and repayable on demand.



17. Interests in Associates/Loans to Associates/Amounts Due from Associates/Amounts Due to Associates (Continued)

Particulars of the Group's principal associates at 31 December 2012 and 31 December 2011 are as follows:

Name of associate	Form of legal entity	Proportion of nominal value of issued ordinary share capital/ registered capital/ held by the Group	Place of incorporation/ registration and operations	Principal activities
Richcoast (notes 1 and 2)	Sino-Foreign Joint Venture	61.54%	British Virgin Islands ("BVI")	Investment holding
Dalian Qiantong Science & Technology Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Ruisheng Software Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Delan Software Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Jiadao Science & Technology Development Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Software Park Shuion Fazhan Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Software Park Shuion Kaifa Co., Ltd. (note 3)	Sino-Foreign Joint Venture	48%	PRC	Software park development

Notes:

- The Group does not have control over Richcoast because the Group has the power to appoint only 4 out of the 10 directors of that company.
- Pursuant to the Joint Venture Agreement dated 25 May 2007 entered into among Innovate Zone, Main Zone and Many Gain, whereby the parties agreed to form a joint venture company, Richcoast, which is owned 61.54%, 28.20% and 10.26% by Innovate Zone, Main Zone, and Many Gain, respectively, for the development and operation of Dalian Tiandi project.
- These companies are non-wholly owned subsidiaries of Richcoast.

18. Interest in a Jointly Controlled Entity/Amount Due from a Jointly Controlled Entity

	2012 RMB'million	2011 RMB'million
Cost of investment, unlisted	–	–
Share of post-acquisition losses	–	–
	–	–
Amount due from a jointly controlled entity	11	11
Less: Allowance	(11)	(11)
	–	–

Particulars of the Group's jointly controlled entity at 31 December 2012 and 31 December 2011 are as follows:

Name of jointly controlled entity	Form of legal entity	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Group		Place of incorporation/ registration and operations	Principal activities
		2012	2011		
Crystal Jade Food and Beverage (Hangzhou) Limited	Limited liability company	50%	50%	Hong Kong	Investment holding
Shanghai Li Xing Hotel Co., Limited ("Shanghai Li Xing")	Sino-Foreign Joint Venture	50%	–	PRC	Investment holding

The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

19. Accounts Receivable, Deposits and Prepayments

	2012 RMB'million	2011 RMB'million
Non-current accounts receivable comprise:		
Rental receivables in respect of rent-free periods	102	86
Current accounts receivable comprise:		
Trade receivables	316	458
Prepayments of relocation costs (note)	1,695	1,815
Other deposits, prepayments and receivables	595	230
	2,606	2,503

Note:

The balance represents the amounts that will be capitalised to properties under development for sale as soon as the relocation has been completed, and such relocation process is in accordance with the Group's normal operating cycle. The balance is not expected to be realised within twelve months from the end of the reporting period.

Trade receivables comprise:

- (i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the relevant sales and purchase agreements; and
- (ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants.



19. Accounts Receivable, Deposits and Prepayments (Continued)

The following is an ageing analysis (based on the repayment terms set out in the sales and purchase agreements or debit notes to the tenants) of trade receivables (net of allowance for bad and doubtful debts, if any) at the end of each reporting period:

	2012	2011
	RMB'million	RMB'million
Not yet due	303	401
Past due within 30 days	2	32
Past due 31 – 60 days	3	23
Past due 61 – 90 days	2	1
Past due over 90 days	6	1
	316	458

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB13 million (2011: RMB57 million) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. Based on the past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Ageing of trade receivables which are past due but not impaired:

	2012	2011
	RMB'million	RMB'million
Past due within 30 days	2	32
Past due 31 – 60 days	3	23
Past due 61 – 90 days	2	1
Past due over 90 days	6	1
	13	57

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the date of the reporting period. Allowance for bad and doubtful debts are generally not required for rental receivables as the Group has collected rental deposits from the tenants to secure any potential losses from uncollectible debts.

20. Pledged Bank Deposits/Restricted Bank Deposits/Bank Balances

Pledged bank deposits represent deposits pledged to banks to secure the banking facilities granted to the Group. Deposits amounting to RMB1,720 million (2011: RMB1,143 million) have been pledged to secure long-term bank loans and are therefore classified as non-current assets.

Bank balances carry interest at market rates which range from 0.35% to 1.35% (2011: 0.5% to 1.5%) per annum. Pledged bank deposits carry interest at fixed rates which range from 0.35% to 1.35% (2011: 0.5% to 1.5%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Restricted bank deposits of RMB183 million (2011: RMB335 million) represent deposits placed by the Group with banks which can only be applied to designated property development projects of the Group. Restricted bank deposits carry interest at market rates which range from 0.35% to 1.35% (2011: 0.5% to 1.5%) per annum.

21. Properties Held For Sale

The Group's properties held for sale are situated in the PRC. All the properties held for sale are stated at cost.

22. Loans Receivable

The amount in 2011 represented entrusted loans which were denominated in RMB, unsecured, and carried fixed interest at rates which range from 6.4% to 6.7% per annum and had been fully settled in March 2012.

23. Amounts Due from/to Related Companies

The amounts due from related companies are unsecured, interest free and repayable on demand, except for an amount of RMB76 million (2011: nil) which is unsecured, carries interest at rates ranging from 6.1% to 6.6% per annum and repayable within one year from the end of the reporting period.

The amounts due to related companies are unsecured, interest free and repayable on demand, except for an amount of RMB100 million (2011: nil) which is unsecured, carries interest at rate of 6.1% per annum and repayable within one year from the end of the reporting period.

Related companies are subsidiaries of SOCL other than the Group or associates of SOCL.

24. Amounts Due from/to Non-Controlling Shareholders of Subsidiaries

The amounts due from non-controlling shareholders of subsidiaries are unsecured, interest free and repayable on demand, except for an amount of RMB31 million (2011: nil) which is unsecured, carries interest at rate of 6.6% per annum and an amount of RMB22 million (2011: nil) which is unsecured, carries interest at rate of 7.2% per annum, both are repayable within one year from the end of the reporting period.

The amounts due to non-controlling shareholders of subsidiaries are unsecured, interest free and repayable on demand.



25. Accounts Payable, Deposits Received and Accrued Charges

	2012 RMB'million	2011 RMB'million
Trade payables with aging analysis (based on invoice date):		
0 – 30 days	2,443	2,519
31 – 60 days	29	4
61 – 90 days	16	5
Over 90 days	80	11
	2,568	2,539
Retention payables (note (a))	448	224
Deed tax, business tax and other tax payables	325	397
Deposits received and receipt in advance from property sales	3,551	860
Deposits received and receipt in advance in respect of rental of investment properties	324	259
Deposit received in respect of partial disposal of equity interests in subsidiaries (note (b))	352	352
Accrued charges	335	437
	7,903	5,068

Notes:

- (a) Retention payables are expected to be paid upon the expiry of the retention periods according to the respective contracts.
- (b) Pursuant to a sale and purchase agreement dated 29 November 2011, entered into between Shui On Development (Holding) Limited ("SOD", a wholly owned subsidiary of the Company) and Mitsui Fudosan Residential Co., Ltd. ("Mitsui", a non-controlling shareholder of an associate's subsidiary), SOD agreed to dispose of, and Mitsui agreed to acquire from SOD, SOD's 49% equity interests in relation to Value Land Limited ("Value Land", an indirect wholly owned subsidiary of the Company which engages in the property development in Foshan, the PRC), for a consideration of RMB391 million. An amount of RMB352 million was received in December 2011 and the remaining balance of RMB39 million would be received upon completion of the transaction pursuant to the terms of the sales and purchase agreement. The transaction was completed on 4 February 2013. The Group holds 51% equity interest in Value Land and still has control over Value Land subsequent to the completion of this transaction.

26. Loans from Non-Controlling Shareholders of Subsidiaries

The carrying amounts of the loans from non-controlling shareholders of subsidiaries are analysed as follows:

Denominated in	Interest rate per annum	2012 RMB'million	2011 RMB'million
RMB	110% (2011: 110%) of People's Bank of China ("PBOC") Prescribed Interest Rate (note (a))	1,648	1,460
HK\$	Interest free (notes (a) and (b))	406	–
United States dollars ("US\$")	110% (2011: 110%) of PBOC Prescribed Interest Rate (note (a))	430	618
		2,484	2,078

Notes:

- (a) The loans are unsecured and will not be demanded for repayment until the Group's subsidiaries are in a position to repay the loans, which are to be mutually agreed between both parties. The Directors are of the opinion that the loans are not repayable in the next twelve months from the end of the reporting period.
- (b) The principal amounts of the loans are RMB456 million. The loans are carried at amortised cost at an effective interest rate of 6.7% per annum.

27. Bank and Other Borrowings

	2012 RMB'million	2011 RMB'million
Bank borrowings repayable within a period of:		
– Not more than 1 year or on demand	5,103	8,774
– More than 1 year, but not exceeding 2 years	3,867	3,490
– More than 2 years, but not exceeding 5 years	8,623	3,026
– More than 5 years	1,210	1,138
	18,803	16,428
Other borrowings repayable within a period of:		
– More than 1 year, but not exceeding 2 years	–	315
Total bank and other borrowings	18,803	16,743
Less: Amount due within one year shown under current liabilities	(5,103)	(8,774)
Amount due after one year	13,700	7,969

The carrying amounts of the Group's bank and other borrowings are analysed as follows:

Denominated in	Interest rate	2012 RMB'million	2011 RMB'million
RMB	90% to 140% (2011: 90% to 120%) of PBOC Prescribed Interest Rate	9,735	6,760
HK\$	Hong Kong Interbank Offered Rates ("HIBOR") plus 1.5% to 4.6% (2011: HIBOR plus 2% to 4.5%)	6,561	9,166
US\$	Singapore Interbank Offered Rates ("SIBOR") plus 2.75% to 3.5% (2011: SIBOR plus 2.75% to 3.5%)	377	502
US\$	London Interbank Offered Rates ("LIBOR") plus 3.1% to 4.6% (2011: LIBOR plus 14%)	2,130	315
		18,803	16,743

As at 31 December 2012, the weighted average effective interest rate on the bank and other borrowings was 5.6% (2011: 4.9%), and are further analysed as follows:

	2012	2011
Denominated in RMB	7.0%	6.8%
Denominated in HK\$	4.0%	3.3%
Denominated in US\$	4.3%	7.8%

The bank and other borrowings at the end of the reporting period are secured by the pledge of assets as set out in note 38.



28. Share Capital

	Authorised		Issued and fully paid	
	Number of shares	US\$'000	Number of shares	US\$'000
Ordinary shares of US\$0.0025 each				
At 1 January 2011 and 31 December 2011	12,000,000,000	30,000	5,211,587,981	13,029
Issue of shares in lieu of cash dividends (note 11)	–	–	162,797,018	407
Issue of new shares for the acquisition of equity interests in subsidiaries (note 36(a))	–	–	626,909,643	1,567
At 31 December 2012	12,000,000,000	30,000	6,001,294,642	15,003

	2012	2011
	RMB'million	RMB'million
Shown in the consolidated statement of financial position as	114	102

29. Reserves

(a) Merger reserve represents the aggregate of:

- (i) the difference between the nominal value of the share capital and share premium on the shares issued by the Company and the aggregate of the share capital and share premium of the holding companies of the subsidiaries acquired;
- (ii) the share of profit attributable to the deemed non-controlling shareholders exchanged upon the group reorganisation in 2004; and
- (iii) the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from a non-controlling shareholder upon the group reorganisation in 2004.

(b) Special reserve comprise:

- (i) The difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from non-controlling shareholders, which will be recognised in the consolidated income statement upon the earlier of the disposal of the assets, disposal of the subsidiary of the assets which the assets relate, or when the related assets affect profit or loss.

During the year ended 31 December 2011, an amount of RMB40 million was released to the consolidated income statement upon the disposal by the subsidiaries of the assets to which it relates.

- (ii) An amount of RMB104 million recognised against the special reserve in the year ended 31 December 2011 represents the difference between the fair value of the consideration paid and the carrying value of the net assets attributable to the additional interest in a residential development on a parcel of land of the Rui Hong Xin Cheng project.

29. Reserves (Continued)

(c) Other reserves comprise:

- (i) An amount of RMB483 million represents payable waived in 2004 by Shui On Investment Company Limited ("SOI", a shareholder of the Company, which is wholly owned by SOCL), in respect of development costs of the same amount originally paid by Shanghai Shui On Property Development Management Co., Ltd., a fellow subsidiary of SOI, and recharged to certain subsidiaries of the Company.
- (ii) Capital contribution of RMB21 million arising on the fair value adjustments at the initial recognition of an interest free loan advanced by a non-controlling shareholder of a subsidiary in 2005.
- (iii) Non-distributable reserve of RMB99 million arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC in 2006.
- (iv) An amount of RMB34 million recognised in the year ended 31 December 2010 represents the difference between the fair value of the consideration paid and the carrying amount of the net assets attributable to the additional interest of 16.8% in Yang Pu Centre Development Co., Ltd. being acquired from the non-controlling interests in 2010.
- (v) An amount of RMB188 million recognised against the other reserve in the current year represents the Group's share of additional interest of 4.81% in carrying amount of the net assets of Foresight Profits Limited ("Foresight"). The Group acquired the additional interest through capital injection in Foresight.
- (vi) An amount of RMB138 million recognised in the current year represents the difference between the fair value of the consideration received and the carrying amount of the net assets attributable to the partial disposal of equity interests of 49% in Glory Land Limited.

30. Convertible Bonds

On 29 September 2010, the Company issued RMB denominated US\$ settled 4.5% convertible bonds with the aggregate principal amount of RMB2,720 million with initial conversion price of HK\$4.87 at a fixed exchange rate of RMB1.00 to HK\$1.1439. An adjustment had been made to the conversion price from HK\$4.87 to HK\$4.47 as a result of the dividends paid since the convertible bonds were issued.

Conversion may occur at any time between 10 November 2010 and 19 September 2015. The Company will, at the option of the holder of the bonds, be required to redeem all or some only of such holder's bonds on 29 September 2013 at an amount equal to the US\$ equivalent of their RMB principal amount, together with accrued but unpaid interest.

If the bonds have not been converted or redeemed by the date of maturity, they will be redeemed at an amount equal to the US\$ equivalent of their RMB principal amount, together with accrued but unpaid interest.

The Company may at any time after 29 September 2013 redeem all, but not some only, of the bonds for the time being outstanding at the US\$ equivalent of their RMB principal amount, together with interest accrued to the date fixed for redemption, provided that the closing price of the shares of the Company translated into RMB at the prevailing rate applicable to the relevant trading day, for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is published was at least 130% of the conversion price then in effect, translated into RMB at the fixed rate of RMB1.00 = HK\$1.1439.

The Company may at any time redeem all, but not some only, of the bonds being outstanding at a redemption price equal to the US\$ equivalent of their RMB principal amount, together with accrued but unpaid interest to the date fixed for redemption, if prior to the date of notice at least 90% in RMB principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.



30. Convertible Bonds (Continued)

The convertible bonds contain two components: equity and liability elements. The equity element of RMB605 million is presented in equity heading "convertible bond equity reserve". The movement of the liability component of the convertible bonds for the year is set out below:

	2012 RMB'million	2011 RMB'million
At 1 January	2,225	2,117
Interest charged during the year	243	230
Less: Interest paid	(122)	(122)
At 31 December	2,346	2,225

The effective interest rate of the liability component on initial recognition is 10.7% per annum.

The fair value of the liability component at inception date is determined based on the valuation carried out by an independent valuer.

31. Notes

	2012 RMB'million	2011 RMB'million
At 1 January	6,520	2,945
Issue of senior notes due 2015	6,952	3,500
Expenses on issue of senior notes	(137)	(70)
Interest charged during the year	972	485
Less: Interest paid	(794)	(340)
Exchange translation	6	-
At 31 December	13,519	6,520
Less: Amount due within one year shown under current liabilities	(2,980)	-
Amount due after one year	10,539	6,520

On 23 December 2010, SOD issued RMB3,000 million senior notes to independent third parties with a maturity of three years due on 23 December 2013 (the "2013 RMB Notes"). The 2013 RMB Notes are denominated in RMB and settled in US\$, and bear coupon interest at rate of 6.875% per annum payable semi-annually in arrears.

On 26 January 2011, SOD further issued RMB3,500 million senior notes to independent third parties with a maturity of four years due on 26 January 2015 (the "2015 RMB Notes"). The 2015 RMB Notes are denominated in RMB and settled in US\$, and bear coupon interest at rate of 7.625% per annum payable semi-annually in arrears.

On 26 January 2012, Shui On Development (Singapore) Pte. Ltd. ("SODSG"), a wholly-owned subsidiary of the Company, issued Singapore dollar ("SGD") 250 million (equivalent to RMB1,241 million) senior notes to independent third parties with a maturity of three years due on 26 January 2015 (the "2015 SGD Notes"). The 2015 SGD Notes are denominated and settled in Singapore dollar, and bear coupon interest at rate of 8% per annum payable semi-annually in arrears.

On 16 February 2012 and 29 February 2012, SOD issued US\$400 million (equivalent to RMB2,520 million) senior notes and US\$75 million (equivalent to RMB472 million) senior notes, respectively, to independent third parties with a maturity of three years due on 16 February 2015 (the "2015 US\$ Notes"). The 2015 US\$ Notes are denominated and settled in US\$, and bear coupon interest at rate of 9.75% per annum payable semi-annually in arrears.

31. Notes (Continued)

On 6 August 2012, SOD further issued US\$400 million senior notes at 102.785% of the principal amount plus accrued interest from 16 February 2012 to 6 August 2012 ("Additional Notes") (equivalent to RMB2,719 million) to independent third parties. These Additional Notes consolidate and form a single class with the 2015 US\$ Notes and have the same term and maturity date of 16 February 2015. These Additional Notes are denominated in US\$, and bear coupon interest at rate of 9.75% per annum payable semi-annually in arrears.

The principal terms of the notes

The 2013 RMB Notes were:

- (a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the Notes;
- (b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);
- (c) guaranteed by the Company on a senior basis;
- (d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security therefore; and
- (e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2013 RMB Notes, SOD may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium (see definition below) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2013 RMB Notes. In the opinion of the Directors, the fair value of the option to early redeem the 2013 RMB Notes is insignificant at initial recognition and at the end of the reporting period.

At any time on or before all the 2013 RMB Notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to the shareholders' after taking into account certain adjustments prescribed in the terms of the 2013 RMB Notes.

The 2015 RMB Notes were:

- (a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the Notes;
- (b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);
- (c) guaranteed by the Company on a senior basis;
- (d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security therefore; and
- (e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2015 RMB Notes, SOD may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium (see definition below) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2015 RMB Notes. In the opinion of the Directors, the fair value of the option to early redeem the 2015 RMB Notes is insignificant at initial recognition and at the end of the reporting period.

At any time on or before all the 2015 RMB Notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to the shareholders' after taking into account certain adjustments prescribed in the terms of the 2015 RMB Notes.



31. Notes (Continued)

The principal terms of the notes (Continued)

The 2015 SGD Notes were:

- (a) senior in right of payment to any existing and future obligations of SODSG expressly subordinated in right of payment to the 2015 SGD Notes;
- (b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SODSG (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);
- (c) guaranteed by the Company on a senior basis;
- (d) effectively subordinated to the secured obligations (if any) of the Company, SOD and SODSG, to the extent of the value of the assets serving as security thereof; and
- (e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2015 SGD Notes, SODSG may at its option redeem the 2015 SGD Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2015 SGD Notes redeemed plus the applicable premium (see definition below) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SODSG, and the trustee of the 2015 SGD Notes. In the opinion of the Directors, the fair value of the option to early redeem the 2015 SGD Notes is insignificant at initial recognition and at the end of the reporting period.

At any time on or before all the Notes or 2015 SGD Notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to shareholders after taking into account certain adjustments prescribed in the terms of the Notes and 2015 SGD Notes.

“Applicable premium” for the 2013 RMB Notes, 2015 RMB Notes and 2015 SGD Notes means with respect to the notes at any redemption date, the greater of (1) 1.00% of the principal amount of the notes and (2) the excess of (A) the present value at such redemption date of (i) the redemption amount of the notes, plus (ii) all required remaining scheduled interest payments due on the notes through the maturity date of the notes (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to 2.5%, over (B) the principal amount of the notes on such redemption date.

The 2015 US\$ Notes were:

- (a) senior in right of payment to any existing and future obligations of SOD expressly subordinated in right of payment to the 2015 US\$ Notes;
- (b) at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SOD (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);
- (c) guaranteed by the Company on a senior basis;
- (d) effectively subordinated to the secured obligations (if any) of the Company and SOD, to the extent of the value of the assets serving as security thereof; and
- (e) effectively subordinated to all existing and future obligations of the subsidiaries of SOD.

At any time prior to the date of maturity of the 2015 US\$ Notes, SOD may at its option redeem the 2015 US\$ Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2015 US\$ Notes redeemed plus the applicable premium (see definition below) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in the written agreement between the Company, SOD, and the trustee of the 2015 US\$ Notes. In the opinion of the Directors, the fair value of the option to early redeem the 2015 US\$ Notes is insignificant at initial recognition and at the end of the reporting period.

31. Notes (Continued)

The principal terms of the notes (Continued)

The 2015 US\$ Notes were: (Continued)

“Applicable premium” for the 2015 US\$ Notes means with respect to the notes at any redemption date, the greater of (1) 1.00% of the principal amount of the notes and (2) the excess of (A) the present value at such redemption date of (i) the redemption amount of the notes, plus (ii) all required remaining scheduled interest payments due on the notes through the maturity date of the notes (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the adjusted treasury rate plus 100 basis points, over (B) the principal amount of the notes on such redemption date.

At any time on or before all the Notes or 2015 US\$ Notes are matured or being fully redeemed, for every two semi-annual periods, dividend payments of the Company are limited to 20% of the profit attributable to shareholders after taking into account certain adjustments prescribed in the terms of the Notes and 2015 US\$ Notes.

32. Perpetual Capital Securities

On 4 December 2012, SOD issued US\$500 million (equivalent to RMB3,137 million) 10.125% guaranteed perpetual capital securities (“Perpetual Capital Securities”) at an issue price of 100%. The Perpetual Capital Securities were issued for general corporate funding purposes and were guaranteed by the Company on a senior basis for the due payment of all sums which may be payable by SOD under the Perpetual Capital Securities. Distributions on the Perpetual Capital Securities are paid semi-annually in arrears from 10 June 2013 and can be deferred at the discretion of SOD. The Perpetual Capital Securities have no fixed maturity and are redeemable at SOD’s option on or after 10 December 2017 at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company and SOD cannot declare or, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank, which includes the ordinary shares of the Company and SOD.

33. Derivative Financial Instruments Designated as Hedging Instruments

The derivative financial instruments are measured at fair value at the end of the reporting period. The fair value is determined based on valuation provided by the counterparty financial institution.

At 31 December 2012 and 31 December 2011, the Group has outstanding interest rate swaps to hedge against the variability of cash flows arising from the interest rate fluctuations. Under these swaps, the Group would receive interests at variable rates at HIBOR and pay interests at fixed rates ranging from 0.63% to 1.45% (2011: 0.69% to 3.58%) and receive interests at variable rates at LIBOR and pay interests at fixed rates ranging from 0.70% to 0.71% (2011: nil) based on the notional amounts of HK\$3,530 million (2011: HK\$8,210 million) and US\$150 million (2011: nil) in aggregate as at 31 December 2012, respectively, and reduced ratably with repayment of the underlying bank borrowings. The Group has designated the interest rate swaps as hedges against the variability of interest payments of certain bank borrowings of the Group with principal amount of HK\$3,530 million (2011: HK\$8,210 million) and US\$150 million (2011: nil) which bear variable interest rates at HIBOR plus spread ranging from 3.0% to 4.5% (2011: 2.4% to 3.65%) and LIBOR plus spread at 3.1% (2011: nil), and mature on or before June 2015 and March 2015, respectively. The principal terms of the interest rate swaps have been negotiated to match the terms of the related bank borrowings.

During the year ended 31 December 2012, fair value gain arising from the interest rate swaps of RMB54 million (2011: RMB68 million) has been deferred in equity as hedge reserve, which is expected to be recognised in the consolidated income statement at various dates upon the interest payments of the related bank borrowings are settled.

During the year ended 31 December 2012, certain interest rate swaps were early terminated due to early repayment of the relevant bank borrowings. Upon termination of the interest rate swaps, an amount of RMB47 million (2011: nil) which was previously recognised in other comprehensive income and accumulated in hedge reserve was reclassified to profit or loss.



34. Deferred Tax Assets/Liabilities

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Revaluation of investment properties	Tax losses	Recognition of sales and related cost of sales	Withholding tax on income derived in the PRC	Others	Total
	RMB'million	RMB'million	RMB'million	RMB' million	RMB' million	RMB' million	RMB' million
At 1 January 2011	1,025	1,931	(20)	(35)	118	(180)	2,839
Charge (credit) to consolidated income statement	80	595	3	(24)	68	(5)	717
At 31 December 2011	1,105	2,526	(17)	(59)	186	(185)	3,556
Charge (credit) to consolidated income statement	67	672	(104)	(132)	(1)	108	610
Acquisition of subsidiaries (note 36(a))	148	530	(26)	–	21	96	769
At 31 December 2012	1,320	3,728	(147)	(191)	206	19	4,935

For the purposes of presentation of the consolidated statement of financial position, certain deferred tax (assets) liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2012	2011
	RMB'million	RMB'million
Deferred tax assets	(93)	(154)
Deferred tax liabilities	5,028	3,710
	4,935	3,556

At the end of the reporting period, the Group has unused tax losses of RMB734 million (2011: RMB267 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to RMB587 million (2011: RMB66 million). No deferred tax asset has been recognised in respect of the remaining tax losses of RMB147 million (2011: RMB201 million) due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years ending 31 December:

	2012	2011
	RMB'million	RMB'million
2012	–	7
2013	34	135
2014	7	7
2015	39	43
2016	52	9
2017	15	–
	147	201

35. Provident and Retirement Fund Schemes

Hong Kong

The Group participates in both a defined benefit plan (the "Plan") which is registered under the Occupational Retirement Schemes Ordinance and in a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The Plan was set up by the Group during 2004. The assets of the Plan are held separately from those of the Group and are invested in securities and funds under the control of trustees. Employees who were members of the Plan prior to the establishment of MPF Scheme were offered a choice of staying within the Plan or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The MPF Scheme

For members of the MPF Scheme, contributions are made by the employees at 5% of relevant income and by the Group at rates ranging from 5% to 10% of the employees' salaries, depending on the employees' length of services with the Group.

The Group's contributions to the MPF Scheme charged to the consolidated income statement as staff costs during the year ended 31 December 2012 are less than RMB1 million.

The Plan

Contributions to the Plan are made by the members at 5% of their salaries and by the Group which are based on recommendations made by the actuary of the Plan. The current employer contribution rate ranges from 5% to 10% of the members' salaries. Under the Plan, a member is entitled to retirement benefits which comprise the sum of any benefits transferred from another scheme and the greater of the sum of employer's basic contribution plus the member's basic contribution accumulated with interest at a rate of no less than 6% per annum before 1 September 2003 and 1% per annum in respect of contributions made on or after 1 September 2003 or 1.8 times the final salary times the length of employment with the Group on the attainment of the retirement age of 60. For members who joined the Plan before 1997, the retirement age is 60 for male members and 55 for female members. No other post-retirement benefits are provided.

The actuarial valuations of the plan assets and the present value of the defined benefit obligation are carried out at 31 December 2012 and 31 December 2011 by Ms. Elaine Hwang of Towers Watson Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations and the related current service cost are measured using the Projected Unit Credit Method.

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2012	2011
Discount rate	0.5%	1.4%
Expected rate of salary increase	2013+: 5.0%	2012+: 5.0%
Expected rate of return on plan assets	7.0%	7.0%

The actuarial valuation shows that the fair value of the plan assets attributable to the Group at 31 December 2012 was RMB41 million (2011: RMB33 million), representing 42% (2011: 38%) of the benefits that has accrued to members.



35. Provident and Retirement Fund Schemes (Continued)

Hong Kong (Continued)

The Plan (Continued)

Amounts recognised in the consolidated income statement for the years ended 31 December 2012 and 31 December 2011 in respect of the defined benefit plan are as follows:

	2012 RMB'million	2011 RMB'million
Current service cost	3	3
Interest cost	1	2
Expected return on plan assets	(2)	(3)
Net actuarial losses recognised during the year	4	2
Net amount charged to consolidated income statement as staff costs	6	4

The actual returns on plan assets allocated to the Group for the year ended 31 December 2012 are losses of RMB4 million (2011: gains of RMB5 million).

The amounts included in the consolidated statement of financial position arising from the Group's obligations in respect of the Plan are as follows:

	2012 RMB'million	2011 RMB'million
Present value of funded defined benefit obligations	98	86
Unrecognised actuarial losses	(45)	(46)
Fair value of plan assets	(41)	(33)
Defined benefit liabilities	12	7

Movements in the present value of the funded defined benefit obligations are as follows:

	2012 RMB'million	2011 RMB'million
At 1 January	86	85
Exchange realignment	–	(3)
Current service cost	3	3
Interest cost	1	2
Contributions from plan participants	1	1
Actuarial losses	7	15
Benefits paid	–	(17)
At 31 December	98	86

35. Provident and Retirement Fund Schemes (Continued)

Hong Kong (Continued)

The Plan (Continued)

Movements in the fair value of the plan assets are as follows:

	2012	2011
	RMB'million	RMB'million
At 1 January	(33)	(53)
Exchange realignment	–	3
Expected return on plan assets	(2)	(3)
Actuarial (gains) losses	(2)	6
Contributions from the employer	(2)	(2)
Contributions from plan participants	(2)	(1)
Benefits paid	–	17
At 31 December	(41)	(33)

The major categories of plan assets at the end of the reporting period are as follows:

	2012	2011
	RMB'million	RMB'million
Equities	23	18
Hedge funds	7	7
Bonds and cash	11	8
	41	33

The Group expects to make a contribution of RMB2 million (2011: RMB3 million) to the defined benefit plans during the next financial year.

PRC

According to the relevant laws and regulations in the PRC, certain subsidiaries established in the PRC are required to contribute a specific percentage of the payroll of their employees to retirement benefit schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the respective schemes.



36. Acquisitions and Disposals

(a) Acquisition of subsidiaries

Pursuant to a sale and purchase agreement dated 9 September 2011 entered into between Rich Bright Holdings Limited ("Rich Bright", an indirect wholly-owned subsidiary of the Company), as the purchaser and Cassidy Enterprises Corp. ("Cassidy", an indirect wholly-owned subsidiary of SOI) and SOI, as sellers, Rich Bright agreed to acquire from Cassidy and SOI, respectively, the entire equity interest in Rimmer Investments Limited ("Rimmer", which indirectly owns Shui On Plaza, an office and retail complex located at Huangpu District, Shanghai, the PRC); and 66.7% equity interest in Magic Garden Investments Limited ("Magic Garden", which indirectly beneficially owns Langham Xintiandi Hotel located at Huangpu District, Shanghai, the PRC).

Langham Xintiandi Hotel is owned by Shanghai Lixing, a company established in the PRC of which the Group holds 50% equity interest through Landton Limited ("Landton", a wholly-owned subsidiary of Victorious Run Limited "VRL", a wholly-owned subsidiary of Magic Garden). In accordance with the shareholders' agreement entered into between Magic Garden, Shanghai Lixing, Landton, VRL and the other joint venturers of Shanghai Lixing, the Group solely has the ability to execute the right and control over, and is solely responsible for or entitled to, as appropriate, all costs incurred in the development, construction and operation of, and income arising from the operation of Langham Xintiandi Hotel. The related assets, liabilities, income and expenses of Langham Xintiandi Hotel are therefore consolidated in the consolidated financial statements of the Group.

SOCL was the substantial shareholder of the Company which indirectly held 48% of the issued shares of the Company prior to the acquisition. Upon completion of acquisition of Rimmer and Magic Garden, SOCL became the ultimate holding company of the Company. Mr. Vincent H.S. Lo, the Chairman of the Company, has controlling interest in SOCL.

On 16 March 2012, the acquisition of Rimmer and Magic Garden was completed. Upon completion of the transaction, Rimmer and Magic Garden became subsidiaries of the Company. In the opinion of the Directors, the acquisition of Rimmer and Magic Garden will complement the Group's strong established position in the PRC real estate market with a stronger presence in Shanghai and position the Group to capture the growth potential from the main financial and business hub of the PRC. The acquisition is expected to make a positive contribution to the income stream of the Group.

The consideration for the acquisition of Rimmer and Magic Garden was settled by the issuance of 626,909,643 shares of the Company and was determined based on the fair values of the assets and liabilities acquired at the date of acquisition. The fair values of the assets and liabilities acquired at the date of acquisition are set out as follows:

	Rimmer RMB'million	Magic Garden RMB'million	Total RMB'million
Investment properties	2,676	189	2,865
Property, plant and equipment	456	1,860	2,316
Accounts receivable, deposits and prepayments	4	28	32
Bank balances and cash	84	27	111
Amounts due from related companies	203	–	203
Amounts due to related companies	–	(581)	(581)
Loan from a non-controlling shareholder of a subsidiary	–	(306)	(306)
Accounts payable, deposits received and accrued charges	(35)	(213)	(248)
Amount due to a non-controlling shareholder of a subsidiary	(18)	–	(18)
Tax liabilities	(4)	–	(4)
Bank borrowings	(921)	(203)	(1,124)
Deferred tax liabilities	(675)	(94)	(769)
	1,770	707	2,477
Gain on acquisition of subsidiaries:			
Consideration transferred			1,766
Add: Non-controlling interests			661
Less: Fair values of assets and liabilities acquired			(2,477)
			(50)
Cash inflow arising on acquisition:			
Cash and cash equivalents acquired			111

36. Acquisitions and Disposals (Continued)

(a) Acquisition of subsidiaries (Continued)

The non-controlling interests in Rimmer and Magic Garden recognised at the acquisition date was measured with reference to the non-controlling interests' proportionate share of the fair value of net assets of Rimmer and Magic Garden and amounted to RMB661 million.

Included in the profit for the year ended 31 December 2012 is profit of RMB116 million attributable to Rimmer and Magic Garden. Turnover for the year ended 31 December 2012 includes RMB270 million generated from Rimmer and Magic Garden.

Had the acquisition of Rimmer and Magic Garden been completed on 1 January 2012, the Group's total turnover for the year would have been RMB4,884 million, and profit for the year would have been RMB2,386 million. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

(b) Acquisition of additional interests in subsidiaries

(i) During the year ended 31 December 2012, the share capital of Foresight, an indirect non-wholly-owned subsidiary of the Company which indirectly owns all ownership interest in a PRC enterprise which is engaged in Rui Hong Xin Cheng project, was increased, whereby SOD, which owned 75% equity interest in Foresight, subscribed the entire portion of the increase in share capital at a consideration of HK\$1,174 million (equivalent to RMB952 million). Elegant Partners Limited ("EPL", a non-controlling shareholder which owned 25% of equity interest in Foresight) did not participate in injecting any additional capital into Foresight. Upon completion of the subscription, the equity interest of SOD in Foresight was increased by 4.81% from 75% to 79.81% and the equity interest of the non-controlling shareholder of Foresight was diluted from 25% to 20.19% by 4.81%.

An amount of RMB188 million recognised in the other reserve during the year ended 31 December 2012 represents the Group's share of additional interest in carrying amount of the net assets of Foresight.

(ii) During the year ended 31 December 2011, pursuant to a supplementary shareholder agreement entered into between SOD, Foresight, Hollyfield Holdings Limited, Selfers Limited, Silomax Limited (indirect subsidiaries of the Company) and EPL dated 1 April 2012, EPL agreed to dispose of, and SOD agreed to acquire from EPL, EPL's rights and interests in relation to a particular phase of the Rui Hong Xin Cheng project for a consideration of RMB378 million.

EPL agreed that the consideration of RMB378 million was advanced to Foresight to finance the Rui Hong Xin Cheng project, which is included in loan from non-controlling shareholder of subsidiaries. The amount owed to EPL is unsecured, interest bearing at 110% of PBOC Prescribed Interest Rate and will not be demanded for payment, until Foresight is in a position to repay the loan, which is to be mutually agreed between both parties. The Directors are in the opinion that the loan is not repayable in the next twelve months from the end of the reporting period.



36. Acquisitions and Disposals (Continued)

(c) Disposal of subsidiaries

During the year ended 31 December 2011, the Group disposed of certain subsidiaries which were engaged in the property development of a project in Hangzhou, the PRC to an independent third party for a cash consideration RMB438 million. The net assets disposed of in the transaction were as follows:

	RMB'million
Investment properties under construction or development	348
Bank balances and cash	96
Other payables and accrued charges	(6)
Net assets disposed of	438
Consideration received	(438)
Gain on disposal	–
Cash consideration in cash and cash equivalent	438
Less: cash and cash equivalent balances disposed of	(96)
Net cash inflow on disposal of subsidiaries	342

During the year ended 31 December 2011, the disposed subsidiaries did not contribute any turnover or results to the Group.

(d) Partial disposals of equity interests in subsidiaries

Pursuant to a sale and purchase agreement dated 22 August 2012 entered into between SOD, as seller, and Mitsui, as purchaser, Mitsui agreed to purchase 49% of the entire issued share capital of Glory Land Investment Limited ("Glory Land", an indirect wholly-owned subsidiary of the Company which engages in the property development in Foshan, the PRC) and the related shareholder's loans of RMB86 million from Mitsui, for a total cash consideration of RMB224 million.

Upon completion of the transaction, the Group's ownership interest in Glory Land has reduced to 51% and the Group continues to have control over Glory Land. The difference of RMB138 million between the fair value of the consideration received and the carrying amount of the net assets attributable to the partial disposal of equity interests of 49% in Glory Land is recognised directly in equity for the year ended 31 December 2012.

37. Share-Based Payment Transactions

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the shareholders on 8 June 2007 for the primary purpose of providing incentives to Directors, eligible employees and consultants. Under the Scheme, the total number of shares in respect of which options may be granted is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

At 31 December 2012, 173,134,188 share options (2011: 112,704,751 share options) remains outstanding under the Scheme, representing 2.9% (2011: 2.2%) of the shares of the Company in issue at that date. The Scheme allows the Board of Directors, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable. The exercise price is determined by the Directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

37. Share-Based Payment Transactions (Continued)

During the year ended 31 December 2012, an aggregate of 79,509,246 share options were granted to certain Directors and certain eligible employees. Details are as follows:

Date of grant	Exercise price HK\$	Closing share price at date of grant HK\$	Weighted average estimated fair value at date of grant HK\$	Number of share options granted
18 January 2012	2.61	2.61	0.94	40,771,000
3 September 2012	5.35	2.83	0.54	38,738,246
				79,509,246

The fair values of the share options as at the grant date were calculated using the Binomial model. The inputs into the model were as follows:

	Granted on 18 January 2012	Granted on 3 September 2012
Expected volatility	50%	50%
Expected life	4.9 years	4.8 to 5.7 years
Risk-free rate	0.64% to 0.88%	0.18% to 0.35%
Expected dividend yield	2.4%	3.2%

Expected volatility was determined by using the volatility of the historical share price of the Company since its listing in October 2006.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

HK\$1.00 is payable by each eligible participant to the Company on acceptance of an offer of options, to be paid within 1 month from the date of the offer.

The vesting period and the exercisable period of the share options granted to eligible employees and Directors on 18 January 2012 are as follows:

	Vesting period	Exercisable period
The first 50% of the grant:	From date of grant to any date in 2nd quarter of year 2013 to be determined by the remuneration committee	From any date in 2nd quarter of year 2013 to be determined by the remuneration committee to 17 January 2020
The second 25% of the grant:	From date of grant to 31 December 2013	From 1 January 2014 to 17 January 2020
The last 25% of the grant:	From date of grant to 31 December 2014	From 1 January 2015 to 17 January 2020



37. Share-Based Payment Transactions (Continued)

The vesting period and the exercisable period of the share options granted to eligible employees and Directors for the remaining grants are as follows:

	Vesting period	Exercisable period
The first 1/7 of the grant:	From date of grant to the 2nd anniversary	From the 2nd to the 7th anniversary to the date of grant
The second 1/7 of the grant:	From date of grant to the 3rd anniversary	From the 3rd to the 8th anniversary to the date of grant
The third 1/7 of the grant:	From date of grant to the 4th anniversary	From the 4th to the 9th anniversary to the date of grant
The fourth 1/7 of the grant:	From date of grant to the 5th anniversary	From the 5th to the 9th anniversary to the date of grant
The fifth 1/7 of the grant:	From date of grant to the 6th anniversary	From the 6th to the 9th anniversary to the date of grant
The sixth 1/7 of the grant:	From date of grant to the 7th anniversary	From the 7th to the 9th anniversary to the date of grant
The last 1/7 of the grant:	From date of grant to the 8th anniversary	From the 8th to the 9th anniversary to the date of grant

The vesting period and the exercisable period of the share options granted to a consultant are as follows:

	Vesting period	Exercisable period
The first 1/5 of the grant:	Unconditional and fully vested at the date of grant	Before the 5th anniversary to the date of grant
The second 1/5 of the grant:	From date of grant to the 1st anniversary	Before the 6th anniversary to the date of grant
The third 1/5 of the grant:	From date of grant to the 2nd anniversary	Before the 7th anniversary to the date of grant
The fourth 1/5 of the grant:	From date of grant to the 3rd anniversary	Before the 8th anniversary to the date of grant
The last 1/5 of the grant:	From date of grant to the 4th anniversary	Before the 9th anniversary to the date of grant

The Group has recognised the total expense of RMB18 million (2011: RMB15 million) in the consolidated income statement in relation to share options granted by the Company.

During the years ended 31 December 2012 and 31 December 2011, none of the share options have been exercised.

37. Share-Based Payment Transactions (Continued)

The movement in the Company's share options is set out below:

Date of grant	Exercise price HK\$	Number of options				
		At 1 January 2012	Granted during the year	Replacement during the year	Lapsed during the year	At 31 December 2012
20 June 2007	7.00	72,175,413	–	–	(10,664,969)	61,510,444
1 August 2007	8.18	808,631	–	–	(24,174)	784,457
2 October 2007	10.00	1,679,722	–	–	(105,453)	1,574,269
1 November 2007	11.78	497,855	–	–	(49,643)	448,212
3 December 2007	9.88	116,156	–	–	(14,675)	101,481
2 January 2008	8.97	2,848,402	–	–	(124,224)	2,724,178
1 February 2008	8.05	1,269,992	–	–	(412,402)	857,590
3 March 2008	7.68	490,381	–	–	(38,832)	451,549
2 May 2008	7.93	4,440,654	–	–	(678,717)	3,761,937
2 June 2008	7.34	10,570,579	–	–	(816,203)	9,754,376
2 July 2008	6.46	696,537	–	–	(250,858)	445,679
4 September 2009	4.90	17,110,429	–	–	(2,578,710)	14,531,719
18 January 2012	2.61	–	40,771,000	–	(1,010,000)	39,761,000
3 September 2012	5.35	–	38,738,246	–	(2,310,949)	36,427,297
		112,704,751	79,509,246	–	(19,079,809)	173,134,188
Categorised as:						
Directors		7,131,120	18,831,214	–	(3,752,682)	22,209,652
Consultant		1,500,000	–	–	(700,000)	800,000
Employees		104,073,631	60,678,032	–	(14,627,127)	150,124,536
		112,704,751	79,509,246	–	(19,079,809)	173,134,188
Number of options exercisable		43,104,768				53,817,874

Date of grant	Exercise price HK\$	Number of options				
		At 1 January 2011	Granted during the year	Replacement during the year	Lapsed during the year	At 31 December 2011
20 June 2007	7.00	91,390,892	–	–	(19,215,479)	72,175,413
1 August 2007	8.18	1,109,933	–	–	(301,302)	808,631
2 October 2007	10.00	2,066,456	–	–	(386,734)	1,679,722
1 November 2007	11.78	724,550	–	–	(226,695)	497,855
3 December 2007	9.88	580,866	–	–	(464,710)	116,156
2 January 2008	8.97	3,178,009	–	–	(329,607)	2,848,402
1 February 2008	8.05	1,444,882	–	–	(174,890)	1,269,992
3 March 2008	7.68	633,008	–	–	(142,627)	490,381
2 May 2008	7.93	5,421,932	–	–	(981,278)	4,440,654
2 June 2008	7.34	13,665,712	–	–	(3,095,133)	10,570,579
2 July 2008	6.46	947,231	–	–	(250,694)	696,537
4 September 2009	4.90	20,989,141	–	–	(3,878,712)	17,110,429
		142,152,612	–	–	(29,447,861)	112,704,751
Categorised as:						
Directors		12,620,443	–	–	(5,489,323)	7,131,120
Consultant		1,500,000	–	–	–	1,500,000
Employees		128,032,169	–	–	(23,958,538)	104,073,631
		142,152,612	–	–	(29,447,861)	112,704,751
Number of options exercisable		35,906,115				43,104,768



38. Pledge of Assets

The following assets are pledged to banks as securities to obtain certain banking facilities at the end of the reporting period:

	2012	2011
	RMB'million	RMB'million
Investment properties	32,546	20,959
Property, plant and equipment	918	592
Prepaid lease payments	460	41
Properties under development for sale	7,031	4,537
Properties held for sale	30	266
Accounts receivable	55	56
Bank deposits	2,163	2,512
	43,203	28,963

All the above assets are pledged to secure banking facilities granted to the Group, except for as at 31 December 2011, an amount of RMB265 million which is included in pledged bank deposits above has been pledged to a bank to secure the banking facilities granted to an associate, which was released during the year.

In addition, the equity interests in certain subsidiaries with carrying amount of net assets of RMB16,029 million (2011: RMB15,688 million) are also pledged to banks as securities to obtain banking facilities granted to the Group at the end of the reporting period.

39. Lease Arrangements

As lessor

Property rental income in respect of the investment properties earned of RMB952 million (2011: RMB744 million), net of outgoings of RMB159 million (2011: RMB122 million), is RMB793 million (2011: RMB622 million). The investment properties held have committed tenants for the next one to fifteen years at fixed rentals. Included in the property rental income, certain leases contain contingent rental income recognised during the year ended 31 December 2012 amounting to RMB21 million (2011: RMB15 million). These contingent rentals are generally based on specified percentages of turnover of the tenants.

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease payments which fall due as follows:

	2012	2011
	RMB'million	RMB'million
Within one year	1,018	765
In the second to fifth years inclusive	1,414	1,196
Over five years	113	93
	2,545	2,054

39. Lease Arrangements (Continued)

As lessee

At the end of the reporting period, the Group has commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012	2011
	RMB'million	RMB'million
Within one year	31	95
In the second to fifth years inclusive	62	60
Over five years	45	54
	138	209

Operating lease payments represent rentals payable by the Group for certain of its office and retail properties. Leases are negotiated for an average term of one to twelve years.

40. Commitments and Contingencies

(a) Capital and other commitments

(i) At the end of the reporting period, the Group has the following commitments:

	2012	2011
	RMB'million	RMB'million
<i>Contracted but not provided for:</i>		
Development costs for investment properties under construction or development	7,312	5,278
Development costs for properties under development held for sale	7,130	6,689
	14,442	11,967

(ii) Pursuant to an agreement entered into with the 上海市虹口區衛生局 of the Hongkou District, Shanghai, the PRC on 20 June 2006, the Group had committed to build a hospital to be located in the Rui Hong Xin Cheng area of the Hongkou District as compensation for the removal of those medical and health care services originally located in that area. As at 31 December 2012 and 2011, no construction contracts related to the hospital have been entered into. No provision for the construction costs has been made in the consolidated financial statements as the amount cannot be measured reliably.



40. Commitments and Contingencies (Continued)

(b) Contingent liabilities

Financial guarantee contracts:

- (i) Pursuant to an agreement entered into with the district government (the “Hongkou Government”) and the Education Authority of the Hongkou District, Shanghai, the PRC on 31 July 2002, guarantees of no more than RMB324 million (2011: RMB324 million) will be granted by the Group to support bank borrowings arranged in the name of a company to be nominated by the Hongkou Government, as part of the financial arrangement for the site clearance work in relation to the development of a parcel of land. As at 31 December 2012 and 31 December 2011, such arrangement has not taken place.
- (ii) As at 31 December 2011, the Group issued guarantees amounting to RMB265 million to banks in respect of banking facilities granted to an associate, in which the associate has drawn down bank loans amounting to RMB250 million. Such guarantee was released in the year 2012.
- (iii) As at 31 December 2012, the Group has provided a guarantee to a joint venture, which was formed between Richcoast and Mitsui, and Mitsui for an amount not exceeding RMB345 million (2011: RMB345 million) in respect of Richcoast’s payment obligations to the joint venture and Mitsui.

In determining whether financial liabilities should be recognised in respect of the Group’s financial guarantee contracts, the Directors of the Company exercise judgment in evaluation of the probability of resources outflow that will be required and the assessment of whether a reliable estimate can be made of the amount of the obligation.

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the consolidated statement of financial position as at 31 December 2012 and 31 December 2011. Should the actual outcome be different from expected, provision for losses will be recognised in the consolidated financial statements.

41. Related Party Transactions

Apart from the related party transactions and balances as stated in notes 10, 17, 18, 23, 24, 25(b), 26, 36 and 40, the Group has the following transactions with related companies during the year:

	2012	2011
	RMB'million	RMB'million
SOCL and its subsidiaries other than those of the Group		
Rental and building management fee expenses	9	30
Travelling expenses	10	11
Project management fee income	–	15
Interest income	4	–
Interest expenses	5	–
SOCAM and its subsidiaries, associates of SOCL		
Rental and building management fee income	2	–
Project construction costs	914	746
Property sales	–	19
Associates		
Project management fee income	11	19
Imputed interest income	44	33
Interest income	55	35
Jointly controlled entity		
Rental and building management fee income	4	4
Directors		
Property sales	1	4
Key management personnel		
Property sales	3	3
Short-term benefits	43	34
Post-employment benefits	2	1
Share-based payments	10	4
	55	39

42. Events After the Reporting Period

On 28 March 2013, the Company announced a proposed rights issue of rights shares on the basis of 1 rights share for every 3 existing shares at the subscription price of HK\$1.84 each. For more information on the proposed rights issue, details of which are set out in the Company's announcement on 28 March 2013.



43. 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 maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, convertible bonds and notes disclosed in notes 27, 30 and 31, respectively net of bank balances and cash, restricted bank deposits and pledged bank deposits, and equity attributable to equity holders of the Company, comprising issued share capital and reserves, and non-controlling interests.

The Directors of the Company review the capital structure of the Group by using a gearing ratio, which is calculated on the basis of dividing the excess of the sum of convertible bonds, notes, bank and other borrowings over the sum of bank balances and cash (inclusive of restricted bank deposits and pledged bank deposits) by total equity. The review is conducted at least quarterly and before each major financing or investment decision is made.

The gearing ratios at the end of reporting dates are as follows:

	2012 RMB'million	2011 RMB'million
Bank and other borrowings	18,803	16,743
Convertible bonds	2,346	2,225
Notes	13,519	6,520
Pledged bank deposits	(2,163)	(2,512)
Restricted bank deposits	(183)	(335)
Bank balances and cash	(6,287)	(3,523)
Net debt	26,035	19,118
Total equity	37,268	29,471
Net debt to total equity	70%	65%

44. Financial Instruments

a. Categories of financial instruments

	2012	2011
	RMB'million	RMB'million
Financial assets		
Loans and receivables (including bank balances and cash)	11,594	9,140
Financial liabilities		
Derivative instruments designated as hedging instruments	23	150
Amortised cost	42,475	32,199

b. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, loans receivable, loans to associates, amounts due from associates, amounts due from related companies, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, restricted bank deposits, bank balances and cash, accounts payable, amounts due to related companies, amounts due to associates, amounts due to non-controlling shareholders of subsidiaries, loans from non-controlling shareholders of subsidiaries, bank and other borrowings, convertible bonds, notes and derivative financial instruments.

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.

The main risks arising from the Group's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Currency risk

All of the Group's turnover is denominated in RMB. However, the Group has certain bank balances and debt obligations that are denominated in foreign currency. As a result, the Group is exposed to fluctuations in foreign exchange rates. The management closely monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	2012	2011
	RMB'million	RMB'million
HK\$		
Assets	3,200	2,470
Liabilities	7,471	9,249
US\$		
Assets	2,323	34
Liabilities	8,916	1,507
SGD		
Liabilities	1,298	-



44. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency of HK\$, US\$ and SGD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items assuming the balances at the end of the reporting period outstanding for the whole year and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Notes	2012 RMB'million	2011 RMB'million
HK\$			
Profit or loss	(i)	203	323
US\$			
Profit or loss	(ii)	314	70
SGD			
Profit or loss	(iii)	62	–

Notes:

(i) This is mainly attributable to the exposure outstanding on receivables and payables denominated in HK\$ not subject to cash flow hedges at year end.

(ii) This is mainly attributable to the exposure outstanding on receivables, payables and notes denominated in US\$ not subject to cash flow hedges at year end.

(iii) This is mainly attributable to the exposure outstanding on senior notes denominated in SGD not subject to cash flow hedges at year end.

The Group's sensitivity to foreign currency has increased in profit during the current year mainly due to both the significant depreciation of HK\$, US\$ and SGD against RMB and increase in US\$ and SGD denominated borrowings.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its bank and other borrowings and loans from non-controlling shareholders of subsidiaries at variable rates. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR, LIBOR, SIBOR, and PBOC prescribed interest rate arising from the Group's HK\$, US\$ and RMB borrowings. In order to mitigate the cash flow interest rate risk in respect of the bank and other borrowings, the Group has entered into several interest rate swaps (which have been designated as hedging instruments) whereby the Group will receive interest at variable rates at HIBOR or LIBOR and pay interests at fixed rates. Details of the interest rate swaps are set out in note 33.

44. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank and other borrowings and loans from non-controlling shareholders of subsidiaries, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables are held constant, the Group's profit for the year ended 31 December 2012 would decrease/increase by RMB34 million (2011: RMB13 million). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank and other borrowings, after taking into consideration the effects of the interest rate swaps designated as hedging instruments and capitalisation of interest costs.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

Credit risk

As at 31 December 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 recognised 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 40.

The Group's credit risk is primarily attributable to its loans to associates, accounts receivable, amounts due from associates and amount of contingent liabilities in relation to the financial guarantees provided by the Group. The amounts presented in the consolidated statement of financial position are net of allowances for bad and doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, except for as at 31 December 2012 where the largest debtor amounting to approximately RMB91 million arising from sales of properties, loans to associates of RMB1,784 million and amounts due from associates of RMB484 million (2011: the largest debtor amounting to approximately RMB227 million arising from sales of properties, loans to associates of RMB1,366 million, amounts due from associates of RMB446 million and loans receivable of RMB152 million).

The credit risk on liquid funds is limited because the funds have been deposited with various creditworthy financial institutions located in Hong Kong and in the PRC.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of bank and other borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The following table details the maturities of the Group's financial liabilities. 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.

For derivative instruments that settle on a net basis, undiscounted net cash outflows are presented.



44. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2012
	%	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
2012							
Non-derivative financial liabilities							
Accounts payable, deposits received and accrued charges	–	4,000	–	–	–	4,000	4,000
Bank and other borrowings at variable rates	5.6%	6,535	5,127	9,693	1,262	22,617	18,803
Convertible bonds	10.7%	2,995	–	–	–	2,995	2,346
Notes	8.6%	4,111	905	10,726	–	15,742	13,519
Amounts due to related companies							
– interest free	–	682	–	–	–	682	682
– interest bearing	6.1%	106	–	–	–	106	100
Amounts due to associates	–	11	–	–	–	11	11
Amounts due to non-controlling shareholders of subsidiaries	–	530	–	–	–	530	530
Loans from non-controlling shareholders of subsidiaries							
– interest free	–	–	–	406	–	406	406
– interest bearing	6.8%	139	833	282	1,478	2,732	2,078
Financial guarantee contracts	–	345	–	–	–	345	–
		19,454	6,865	21,107	2,740	50,166	42,475
Derivatives – net settlement							
Cash flow hedge instruments		23	–	–	–	23	23

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2011
	%	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
2011							
Non-derivative financial liabilities							
Accounts payable, deposits received and accrued charges	–	3,856	–	–	–	3,856	3,856
Bank and other borrowings at variable rates	4.9%	9,402	4,197	3,458	1,263	18,320	16,743
Convertible bonds	10.7%	122	3,056	–	–	3,178	2,225
Notes	7.8%	473	3,473	3,900	–	7,846	6,520
Amounts due to related companies	–	368	–	–	–	368	368
Amounts due to associates	–	5	–	–	–	5	5
Amounts due to non-controlling shareholders of subsidiaries	–	404	–	–	–	404	404
Loans from non-controlling shareholders of subsidiaries							
– interest bearing	7.2%	150	150	450	2,228	2,978	2,078
Financial guarantee contracts	–	610	–	–	–	610	–
		15,390	10,876	7,808	3,491	37,565	32,199
Derivatives – net settlement							
Cash flow hedge instruments		150	–	–	–	150	150

44. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (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 the 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 are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c. Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair values of derivative instruments, are calculated using quoted prices as inputs. Where such prices are not available, fair value is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The derivative financial instruments are grouped into Level 2 financial instruments based on the degree to which the fair value is observable. Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

d. Fair value measurements recognised in the consolidated statement of financial position

Included in other comprehensive income is a gain of RMB54 million (2011: RMB68 million) related to interest rate swaps designated in cash flow hedge held at the end of the reporting period.

45. Summarised Financial Position of the Company

	2012 RMB'million	2011 RMB'million
Investments in subsidiaries	4,375	2,413
Loan to a subsidiary	9,548	7,153
Amounts due from subsidiaries	1,809	4,149
Other prepayment	22	22
Bank balances	1	1
Total assets	15,755	13,738
Convertible bonds	2,346	2,225
Total liabilities	2,346	2,225
Net assets	13,409	11,513
Share capital	114	102
Reserves (note)	13,295	11,411
Total equity	13,409	11,513



45. Summarised Financial Position of the Company (Continued)

Note: Details of the Company's reserve are set out below:

	Share premium RMB'million	Convertible bond equity reserve RMB'million	Other Reserve RMB'million (note 29(c)(i))	Share option reserve RMB'million	Accumulated losses RMB'million	Total RMB'million
At 1 January 2011	12,985	605	483	155	(2,646)	11,582
Profit and total comprehensive income for the year	-	-	-	-	141	141
Recognition of equity-settled share-based payment expenses	-	-	-	15	-	15
Total dividends of HK\$0.075 paid, comprising 2010 final dividend of HK\$0.05 per share and 2011 interim dividend of HK\$0.025 per share	-	-	-	-	(327)	(327)
At 31 December 2011	12,985	605	483	170	(2,832)	11,411
Profit and total comprehensive income for the year	-	-	-	-	294	294
Issue of new shares	1,756	-	-	-	-	1,756
Recognition of equity-settled share-based payment expenses	-	-	-	18	-	18
Total dividends of HK\$0.125 paid, comprising 2011 final dividend of HK\$0.10 per share and 2012 interim dividend of HK\$0.025 per share	-	-	-	-	(595)	(595)
Shares issued in lieu of cash dividend	411	-	-	-	-	411
At 31 December 2012	15,152	605	483	188	(3,133)	13,295

46. Particulars of the Subsidiaries

Particulars of the Company's subsidiaries at 31 December 2012 and 31 December 2011 are as follows:

Name of subsidiary	Place and date of incorporation/establishment	Issued and fully paid share capital/registered capital	Attributable equity interest held		Place of operation	Principal activities
			2012 (Note 1)	2011		
Ally Victory Limited	BVI 18 April 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Atlantic Best Limited	Hong Kong 5 January 2001	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Beaming Leader Limited	BVI 5 October 2012	7,000 A ordinary shares of US\$1 each and 3,000 B ordinary shares of US\$1 each	70%	-	Hong Kong	Investment holding
Best View Development Limited	Hong Kong 5 March 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Best Scene Retail Asset Management (Hong Kong) Limited (formerly known as China Xintiandi (H.K.) Limited)	Hong Kong 4 April 2011	1 ordinary share of HK\$1	70%	100%	Hong Kong	Investment holding
Billion China Investments Limited (Note 5)	BVI 18 October 2007	10 A ordinary shares of US\$1 each and 10 B ordinary shares of US \$1 each	A shares: 100% B shares: 51%	100%	Hong Kong	Investment holding
Billion World Limited	Hong Kong 19 November 2003	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2012 (Note 1)	2011		
Bondwise Profits Limited	BVI 28 December 2000	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Bright Continental Limited	Hong Kong 5 March 2003	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Bright Power Enterprises Limited	BVI 1 July 2004	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Brixworth International Limited	BVI 3 January 2001	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Central Fit Investments Limited	BVI 23 October 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Century Team Limited	Hong Kong 16 January 1998	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Chinalink Capital Limited	BVI 16 July 2003	999 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
China Advance Limited	Hong Kong 13 November 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
China Wealth (H.K.) Limited	Hong Kong 4 January 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
China Xintiandi Company Limited	BVI 21 March 2011	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
China Xintiandi Limited (formerly known as China Xintiandi Company Limited)	Cayman Islands 18 April 2011	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
China Xintiandi Development Company Limited	Cayman Islands 3 November 2011	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
China Xintiandi Holding Company Limited	Cayman Islands 27 October 2011	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
China Xintiandi Investment Company Limited	Cayman Islands 27 October 2011	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
China Xintiandi Management (Hong Kong) Limited	Hong Kong 12 October 2012	1 ordinary share of HK\$1	100%	–	Hong Kong	Dormant
China Xintiandi Property Company Limited	Cayman Islands 27 October 2011	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
Chongqing Shui On Tiandi Property Development Co. Ltd.	PRC 21 November 2003	Registered and paid up capital US\$359,000,000	79.4%	79.4%	PRC	Property development and property investment
Citichamp Limited	Hong Kong 19 July 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Cititop Pacific Limited	Hong Kong 1 December 2000	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Costworth Investments Limited	BVI 12 January 2001	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Crown Fame Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	51%	100%	Hong Kong	Investment holding
Cybricity Limited	Hong Kong 28 April 2000	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Dalian Yingjia Science and Technology Development Co., Ltd.	PRC 3 December 2009	Registered and paid up capital US\$23,000,000	100%	100%	PRC	Science and Technology development



46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2012 (Note 1)	2011		
East Capital Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
East Trend Limited	Hong Kong 14 February 2001	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Eastern View Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Excel Efficient Limited	BVI 19 August 2002	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Excellent Win Enterprises Limited	Hong Kong 5 February 2010	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Fast China Limited	BVI 23 April 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Feng Cheng Property Management Services Limited	Hong Kong 14 November 2003	100 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Fieldcity Investments Limited	BVI 30 March 2005	100 ordinary shares of US\$1 each	75%	75%	Hong Kong	Investment holding
Focus Top Limited	Hong Kong 24 April 1998	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Foresight Profits Limited	BVI 8 February 2001	10,000 ordinary shares of US\$1 each	79.81%	75%	Hong Kong	Investment holding
Fo Shan An Ying Property Development Co., Ltd.	PRC 8 January 2008	Registered capital RMB830,000,000 Paid up capital RMB732,644,000	100%	100%	PRC	Property development
Fo Shan Rui Dong Property Development Co., Ltd.	PRC 25 April 2008	Registered and paid up capital RMB690,000,000	100%	100%	PRC	Property development
Fo Shan Rui Fang Property Development Co., Ltd.	PRC 21 May 2008	Registered and paid up capital RMB690,000,000	100%	100%	PRC	Property development
Fo Shan Rui Kang Tian Di Property Development Co., Ltd.	PRC 21 May 2008	Registered and paid up capital RMB690,000,000	100%	100%	PRC	Property development
Fo Shan Shui On Property Development Co., Ltd.	PRC 8 January 2008	Registered capital RMB900,000,000 Paid up capital RMB833,535,445	51%	100%	PRC	Property development
Fo Shan Yi Kang Property Development Co., Ltd.	PRC 8 January 2008	Registered capital RMB1,100,000,000 Paid up capital RMB790,169,074	100%	100%	PRC	Property development
Fo Shan Yi Kong Hotel Management Co., Ltd.	PRC 8 August 2011	Registered and paid up capital RMB5,000,000	100%	–	PRC	Hotel management
Fo Shan Yong Rui Tian Di Property Development Co., Ltd.	PRC 21 March 2008	Registered and paid up capital RMB690,000,000	100%	100%	PRC	Property development
Fo Shan Yuan Kang Property Development Co., Ltd.	PRC 29 February 2008	Registered and paid up capital RMB700,000,000	100%	100%	PRC	Property development
Fo Shan Shui On Tiandi Trading Co., Ltd.	PRC 3 August 2011	Registered and paid up capital RMB1,000,000	100%	100%	PRC	Retail business

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2012 (Note 1)	2011		
Fuhui Limited	BVI 1 April 2010	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Firm Gain Investments Limited	BVI 26 July 2011	1 ordinary share of US\$1	100%	100%	Hong Kong	Dormant
Galore Profits Limited	BVI 23 January 2001	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Global Ocean Investments Limited	BVI 1 November 2002	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Globaland Limited	Hong Kong 30 October 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Globe State Properties Limited	BVI 12 October 2005	100 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Glory Advance Investments Limited	BVI 18 August 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Glory Land Investment Limited	Cayman Islands 3 July 2012	100 ordinary shares of US\$1 each	51%	–	Hong Kong	Investment holding
Glory Wing Holdings Limited	BVI 15 January 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Grand Hope Limited (Note 4)	Hong Kong 14 March 2003	100 A ordinary shares of HK\$1 each and 2 B ordinary shares of HK\$1 each	A shares: 80.2% B shares: 60.15%	80.2% 60.15%	Hong Kong	Investment holding
Hangzhou Xihu Tiandi Management Co., Ltd.	PRC 6 March 2003	Registered and paid up capital US\$7,000,000	100%	100%	PRC	Property management
Hing Tin Investments Limited	BVI 23 October 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Hollyfield Holdings Limited	Mauritius 19 April 2001	2 ordinary shares of US\$1 each	79.81%	75%	Hong Kong	Investment holding
Infoshore International Limited	BVI 1 November 2002	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Info Union Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Innovate Zone Group Limited	BVI 3 January 2007	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Intellect Profit Investments Limited	BVI 10 August 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Interchina International Limited	BVI 12 January 2001	100 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Join Legend Limited	Hong Kong 2 June 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Joyous Bond Limited	BVI 18 April 2008	1 ordinary share of US\$1	79.81%	75%	Hong Kong	Investment holding
Keen Allied Investments Limited	BVI 18 September 2002	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
King Concord Limited	Hong Kong 3 October 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Kinmax Limited	Hong Kong 24 April 1998	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Land Pacific Limited	Hong Kong 2 November 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Landton Limited	Hong Kong 2 April 1997	2 ordinary shares of HK\$1 each	66.7%	–	Hong Kong	Investment holding



46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2012 (Note 1)	2011		
Legend City Limited	Hong Kong 4 June 1997	2 ordinary shares of HK\$1 each	51%	51%	Hong Kong	Investment holding
Lucky Gain Limited	Hong Kong 8 November 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Magic Best Investments Limited	BVI 19 July 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Magic Bright Investments Limited (Note 6)	BVI 18 September 2007	10 A ordinary shares of US\$1 each and 10 B ordinary shares of US \$1 each	A shares: 100% B shares: 100%	100%	Hong Kong	Investment holding
Magic Garden Investments Limited	BVI 6 November 2009	3 ordinary shares of US\$1 each	66.7%	–	Hong Kong	Investment holding
Marble Way Limited	BVI 28 August 1996	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Merry Wave Limited	BVI 23 April 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Modern Prosper Investments Limited	BVI 1 November 2002	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Mount Eastern Limited	BVI 18 April 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Nation Development Limited	Hong Kong 26 October 2010	1 ordinary share of HK\$1	100%	100%	Hong Kong	Dormant
New Asia Limited	Hong Kong 31 October 2003	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
New Power Profits Limited	BVI 18 October 2005	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
New Venture Enterprises Limited	Hong Kong 26 October 2010	1 ordinary shares of HK\$1	100%	100%	Hong Kong	Investment holding
Nice In Investments Limited	BVI 18 October 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Onfair Limited	Hong Kong 13 November 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Onwin Limited	Hong Kong 13 November 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Oriental Gain Limited	Hong Kong 2 February 2001	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Oriental Host Limited	Hong Kong 23 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Pacific Gain Limited	Hong Kong 11 September 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Portspin Limited	BVI 22 May 1997	100 ordinary shares of US\$1 each	51%	51%	Hong Kong	Investment holding
Princemax Limited	Hong Kong 15 April 1998	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Profitstock Holdings Limited	BVI 2 June 2005	100 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Regal Victory Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Rich Bright Holdings Limited	BVI 29 July 2011	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Rich Prime Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2012 (Note 1)	2011		
Rightchina Limited	BVI 2 July 2008	100 ordinary shares of US\$1 each	60.15%	60.15%	Hong Kong	Investment holding
Rightidea Limited	BVI 2 July 2008	100 ordinary shares of US\$1 each	80.2%	80.2%	Hong Kong	Investment holding
Rimmer Investments Limited	BVI 22 July 1994	1 ordinary share of US\$1	100%	–	Hong Kong	Investment holding
Rise Lake Investments Limited	BVI 23 August 2007	10 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Score High Limited	BVI 12 February 2003	1,000 ordinary shares of US\$1 each	80.2%	80.2%	Hong Kong	Investment holding
Selfers Limited	BVI 29 November 1995	1 ordinary share of US\$1	79.81%	75%	Hong Kong	Investment holding
Shanghai Bai-Xing Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB151,300,000	97%	97%	PRC	Property development and property investment
Shanghai Fu Ji Properties Co., Ltd.	PRC 18 January 2004	Registered and paid up capital US\$35,773,000	99%	99%	PRC	Property development
Shanghai FuXiang Properties Co., Ltd.	PRC 19 December 2001	Registered and paid up capital RMB645,000,000	99%	99%	PRC	Property development and property investment
Shanghai Ji-Xing Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB71,600,000	97%	97%	PRC	Property development and property investment
Shanghai JingFu Property Co., Ltd.	PRC 26 December 2001	Registered and paid up capital RMB400,000,000	99%	99%	PRC	Property development
Shanghai Jiu Hai Rimmer Properties Co.,Ltd.	PRC 1 November 1994	Registered and paid up capital US\$30,000,000	80%	–	PRC	Property investment
Shanghai JunXing Property Co., Ltd. (note 7)	PRC 5 March 2009	Registered and paid up capital RMB2,511,300,000	49.98%	49.98%	PRC	Property development
Shanghai Knowledge and Innovation Community Development Co., Ltd	PRC 9 June 2010	Registered and paid up capital HK\$1,550,000,000	99%	99%	PRC	Property development
Shanghai Lakeville Properties Co., Ltd.	PRC 23 May 2001	Registered and paid up capital RMB165,000,000	99%	99%	PRC	Property development
Shanghai Le Fu Properties Co., Ltd.	PRC 20 February 2004	Registered and paid up capital US\$240,500,000	99%	99%	PRC	Property development
Shanghai IPO Food & Beverage Co., Ltd.	PRC 6 September 2006	Registered and paid up capital US\$1,890,000	100%	100%	PRC	Food and beverage services
Shanghai Rui Chen Property Co., Ltd.	PRC 6 May 1996	Registered and paid up capital RMB189,000,000	79.81%	75%	PRC	Property development and property investment
Shanghai Rui Qiao Property Development Co., Ltd.	PRC 28 December 2010	Registered and paid up capital RMB3,900,000,000	100%	100%	PRC	Property development
Shanghai Rui Hong Xin Cheng Co., Ltd.	PRC 2 July 2001	Registered and paid up capital RMB5,700,000,000	79.01%	74.25%	PRC	Property development and property investment



46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2012 (Note 1)	2011		
Shanghai Rui Zhen Food & Beverage Co., Ltd.	PRC 7 November 2003	Registered and paid up capital US\$6,420,000	99%	99%	PRC	Food and beverage services
Shanghai Shui On Club Business Management Co., Ltd.	PRC 29 July 2010	Registered and paid up capital RMB200,000	100%	100%	PRC	Provision of business management services
Shanghai Tai Ping Qiao Properties Management Co., Ltd.	PRC 31 August 2001	Registered and paid up capital US\$200,000	99%	99%	PRC	Property management
Shanghai Xin-tian-di Plaza Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB101,300,000	97%	97%	PRC	Property development and property investment
Shanghai Xing Bang Properties Co., Ltd.	PRC 21 June 2001	Registered and paid up capital RMB290,500,000	99%	99%	PRC	Property development and property investment
Shanghai Xing-Qi Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB274,900,000	97%	97%	PRC	Property development and property investment
Shanghai Xing Qiao Properties Co., Ltd.	PRC 18 January 2004	Registered and paid up capital US\$165,000,000	99%	99%	PRC	Property development
Shanghai Yang Pu Centre Development Co., Ltd.	PRC 26 August 2003	Registered and paid up capital US\$137,500,000	86.8%	86.8%	PRC	Property development and property investment
Shui On Development (Holding) Limited	Cayman Islands 27 July 2005	22 ordinary shares of US\$0.01 each	100%	100%	Hong Kong	Investment holding
Shui On Development (Singapore) Pte. Limited	Singapore 27 December 2011	1 ordinary share of US\$10	100%	100%	Singapore	Debt financing
Shui On Land Management Limited	Hong Kong 12 May 2004	1 ordinary share of HK\$1	100%	100%	Hong Kong	Provision of management services
Prosper Profit Holding Limited (formerly known as Shui On Resort Community (Dali) Holding Limited)	BVI 6 May 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Splendid Return Investments Limited (formerly known as Shui On Resort Community (Dali) Limited)	Hong Kong 13 May 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Lijiang) Holding Limited	BVI 28 April 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Lijiang) Limited	Hong Kong 5 May 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Shangri-La) Holding Limited	BVI 6 May 2008	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Shangri-La) Limited	Hong Kong 13 May 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Kunming) Holding Limited	BVI 18 July 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Shui On Resort Community (Kunming) Limited	Hong Kong 25 July 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding

46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2012 (Note 1)	2011		
Shui On Resort Community (Yunnan) Development Limited	Cayman Islands 17 July 2006	1 ordinary share of US\$0.01	100%	100%	Hong Kong	Investment holding
Shine First Limited	BVI 25 October 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Shine Prime Investments Limited	BVI 2 November 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Shui On Secretaries & Nominees Limited	Hong Kong 30 November 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Provision of secretarial services
Silomax Limited	BVI 25 March 1996	1 ordinary share of US\$1	79.81%	75%	Hong Kong	Investment holding
Sino Realty Limited	Hong Kong 3 October 2006	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Sino Wisdom Investments Limited	BVI 12 May 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Sinoco Limited	Hong Kong 28 October 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Sinotink Holdings Limited	BVI 15 September 2000	100 ordinary shares of US\$1 each	100%	100%	Hong Kong	Investment holding
Smart Century Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Super Field Limited	Hong Kong 25 February 2005	1 ordinary share of HK\$1	75%	75%	Hong Kong	Investment holding
Taipingqiao Holding Company Limited	BVI 25 October 2011	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Timezone Management Limited	BVI 28 February 2001	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Tip Profit Limited	BVI 18 July 2006	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Top Faith Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK\$1	79.81%	75%	Hong Kong	Investment holding
Top Victory Development Limited	Hong Kong 5 March 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Triumph Sky Group Limited	BVI 23 October 2007	1 ordinary share of US\$1	100%	100%	Hong Kong	Investment holding
Union Grow Limited	Hong Kong 8 November 2002	2 ordinary shares of HK\$1 each	100%	100%	Hong Kong	Investment holding
Value Land Investment Limited	Cayman Islands 2 September 2011	10,000 ordinary shares of US\$0.01 each	100%	100%	Hong Kong	Investment holding
Victorious Run Limited	BVI 23 January 1997	100 ordinary shares of US\$1 each	66.7%	–	Hong Kong	Investment holding
Victory Win Development Limited	Hong Kong 18 April 2008	1 ordinary share of HK\$1	100%	100%	Hong Kong	Investment holding
Wuhan Shui On Tiandi Property Development Co., Ltd.	PRC 2 August 2005	Registered and paid up capital US\$273,600,000	75%	75%	PRC	Property development and property investment
上海百麗房地產開發有限公司 (Shanghai Baili Property Development Co., Ltd.*)	PRC 29 August 2002	Registered and paid up capital RMB100,000,000	79.81%	75%	PRC	Property development and property investment



46. Particulars of the Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held		Place of operation	Principal activities
			2012 (Note 1)	2011		
上海豐誠物業管理有限公司 (Shanghai Feng Cheng Property Management Co., Ltd.*)	PRC 18 January 2004	Registered and paid up capital RMB12,079,950	100%	100%	PRC	Property management
上海豐誠楊浦物業管理有限公司 (Shanghai Feng Cheng Yang Pu Property Management Co., Ltd*)	PRC 21 July 2010	Registered and paid up capital RMB950,000	100%	100%	PRC	Property management
上海瑞橋企業管理有限公司 (Shanghai Rui Qiao Enterprise Management Co., Ltd.*)	PRC 23 April 2009	Registered and paid up capital RMB1,000,000	86.8%	86.8%	PRC	Property development
上海瑞展教育信息諮詢有限公司 (Shanghai Rui Zhan Education Information Consultant Co., Ltd.*)	PRC 20 April 2010	Registered and paid up capital RMB1,000,000	79.81%	75%	PRC	Provision of education information and consultancy services
上海瑞安房地產發展有限公司 (Shui On Development Limited*)	PRC 14 June 2004	Registered and paid up capital US\$58,000,000	100%	100%	PRC	Provision of management services
Shanghai Li Xing Hotel Co. Ltd.	PRC 21 August 2002	Registered and paid up capital US\$159,150,000	33.35%	–	PRC	Provision of hotel and related services and property investment
武漢瑞安商祺房產管理有限公司 (Wuhan Shuion Shangqi Company Limited)	PRC 24 July 2012	Registered and paid up capital US\$14,400,000	75%	–	PRC	Property investment
武漢瑞安天地商貿有限公司 (Wuhan Shui On Tian Di Trading Co., Ltd.*)	PRC 8 January 2007	Registered and paid up capital US\$1,800,000	100%	100%	PRC	Retail business
上海夏欣商業管理有限公司	PRC 31 May 2012	Registered and paid up capital US\$5,000,000	70%	–	PRC	Provision of management services

Notes:

- The Company directly holds the equity interest in Shui On Development (Holding) Limited. All other equity interests shown above are indirectly held by the Company.
- All subsidiaries established in the PRC are either equity joint ventures or cooperative joint ventures except Dalian Yingjia Science and Technology Development Co., Ltd., Fo Shan An Ying Property Development Co., Ltd., Fo Shan Rui Dong Property Development Co., Ltd., Fo Shan Rui Fang Property Development Co., Ltd., Fo Shan Rui Kang Tian Di Property Development Co., Ltd., Fo Shan Shui On Property Development Co., Ltd., Fo Shan Yi Kang Property Development Co., Ltd., Fo Shan Ying Kong Hotel Management Co., Ltd., Fo Shan Yuan Kang Property Development Co., Ltd., Fo Shan Shui On Taindi Trading Co., Ltd., Shanghai IPO Food & Beverage Co., Ltd., Shanghai Rui Qiao Property Development Co., Ltd., 上海豐誠物業管理有限公司 (Shanghai Feng Cheng Property Management Co., Ltd.*), 上海瑞安房地產發展有限公司 (Shui On Development Limited*), 武漢瑞安天地商貿有限公司 (Wuhan Shui On Tian Di Trading Co., Ltd.*), Wuhan Shui On Tiandi Property Development Co., Ltd., 武漢瑞安商祺房產管理有限公司 (Wuhan Shuion Shangqi Company Limited), 上海瑞橋企業管理有限公司 (Shanghai Rui Qiao Enterprise Management Co., Ltd.*), 上海瑞展教育信息諮詢有限公司 (Shanghai Rui Zhan Education Information Consultant Co., Ltd.*), 上海夏欣商業管理有限公司, Shanghai Rui Chen Property Co., Ltd. which are wholly foreign owned enterprises.
- Except for Shui On Development (Holding) Limited and Shui On development (Singapore) Pte. Limited, none of the subsidiaries had any debt securities subsisting at 31 December 2012 or at any time during the year.
- The holders of Class B ordinary shares of Grand Hope Limited have attributable interests in the Chongqing Super Rise Project whereas the holders of Class A ordinary shares of Grand Hope Limited have attributable interests in the Chongqing Shui On Tiandi Property Development Co., Ltd. other than the Chongqing Super High Rise Project.
- The Class A ordinary shares of Billion China Investments Limited confers on its holders rights attributable to Crown Fame Limited (Crown Fame™)'s 90% interest in Fo Shan Shui On Property Development Co. Ltd. ("Foshan Shui On") whereas the Class B ordinary shares of Billion China Investments Limited confers on its holders rights attributable to (i) Crown Fame's 90% interests in Foshan Shui On pertaining to the land lots in Foshan other than Lots 6 and 16 and (ii) Crown Fame's interests in the Foshan PRC project companies other than Foshan Shui On.
- The Class A ordinary shares of Magic Bright Investments Limited confers on its holders rights attributable to Regal Victory Limited ("Regal Victory")'s 92% interest in Fo Shan Yong Rui Tian Di Property Development Co. Ltd. ("Foshan Yong Rui") whereas the Class B ordinary shares of Magic Bright Investments Limited confers on its holders rights attributable to Regal Victory's interests in the Foshan PRC project companies others than Foshan Yong Rui.
- The Group holds 51% interest in Portspin Limited, which indirectly holds 98% equity interest in Shanghai Jun Xing Property Co., Ltd. The Group's effective interest in Shanghai Jun Xing Property Co., Ltd. is therefore 49.98%.

* For identification purposes

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