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合景泰富地產

KWG PROPERTY HOLDING LIMITED

合景泰富地產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1813)

OVERSEAS REGULATORY ANNOUNCEMENT

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

Reference is made to the announcements of KWG Property Holding Limited (the “**Company**”) dated 23 March 2011 and 24 March 2011 in relation to the Notes Issue (the “**Announcements**”). All terms used herein have the same meaning as defined in the Announcements, unless otherwise defined.

Please refer to the attached offering memorandum in relation to the Notes (the “**Offering Memorandum**”), which has been published on the website of Singapore Exchange Securities Trading Limited on 30 March 2011.

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

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

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

On behalf of the Board
KWG Property Holding Limited
Kong Jian Min
Chairman

Hong Kong, 30 March 2011

As at the date of this announcement, the executive Directors are Mr. Kong Jian Min, Mr. Kong Jian Tao, Mr. Kong Jian Nan, Mr. Li Jian Ming, Mr. Tsui Kam Tim, Mr. He Wei Zhi and Mr. Yu Yao Sheng; and the independent non-executive directors of the Company are Mr. Lee Ka Sze, Carmelo, Mr. Dai Feng and Mr. Tam Chun Fai.

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US\$350,000,000
12.75% Senior Notes due 2016



合景泰富地產

KWG Property Holding Limited

(incorporated in the Cayman Islands with limited liability)

Issue Price: 100%
plus in each case, accrued interest, if any, from the issue date

KWG Property Holding Limited (the “Company”) is offering 12.75% Senior Notes due 2016 in the aggregate principal amount of US\$350,000,000 (the “Notes”). The Notes will bear interest at the rate of 12.75% *per annum* and will mature on March 30, 2016. Interest will be payable semi-annually in arrears on and of each year, beginning September 30, 2011.

The Notes are senior obligations of the Company guaranteed by certain of our existing subsidiaries, or the Subsidiary Guarantors, other than (1) those organized under the laws of the PRC and (2) certain other subsidiaries specified in the sections entitled “Description of the Notes.” We refer to the guarantors by the Subsidiary Guarantors as Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of the Company may be replaced by a limited-recourse guarantee, or JV Subsidiary Guarantee. We refer to the subsidiaries providing a JV Subsidiary Guarantee as JV Subsidiary Guarantors.

At any time and from time to time, we may redeem up to 35% of the Notes, at a redemption price of 112.75% with respect to the Notes of the principal amount, plus accrued and unpaid interest, if any, using the net cash proceeds from sales of certain kinds of capital stock. In addition, we may redeem the Notes, in whole but not in part, at any time prior to March 30, 2014, at a price equal to 100% of the principal amount of the Notes plus (i) accrued and unpaid interest (if any) to (but not including) the redemption date and (ii) a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control Triggering Event (as defined in the indenture governing the Notes, or the “Indenture”), we must make an offer to repurchase all such Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will be (1) at least *pari passu* in right of payment against the Company with respect to the Company’s US\$250,000,000 12.50% Senior Notes due 2017 (the “2010 Notes”) and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law), (2) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (3) effectively subordinated to the other secured obligations of the Company (if any), the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor, and (4) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) and the pledge of any collateral. See the section entitled “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.”

For a more detailed description of the Notes, see the section entitled “Description of the Notes.”

Investing in the Notes involves risks. See the section entitled “Risk Factors.”

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions 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 Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any).

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States or to any U.S. persons. The Notes are being offered and sold only outside the United States to non-U.S. persons in compliance with Regulation S under the U.S. Securities Act. For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions.”

The Notes will be evidenced by a global note (the “Global Note”), in registered form, which will be registered in the name of a nominee of, and deposited with a common depository for, Euroclear Bank SA/NV, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream. Beneficial interests in the Global Notes 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 the Notes will not be issued in exchange for beneficial interests in the Global Note. It is expected that delivery of the Global Notes will be made on March 30, 2011 or such later date as may be agreed by the Company and the Initial Purchasers (as defined in “Plan of Distribution”).

Joint Bookrunners and Joint Lead Managers

Citi

HSBC

Standard Chartered Bank

The date of this offering memorandum is March 23, 2011

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

IN CONNECTION WITH THIS OFFERING, EACH INITIAL PURCHASER, OR ANY PERSON ACTING FOR SUCH INITIAL PURCHASER, 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 EACH SUCH INITIAL PURCHASER, AND NOT FOR US OR ON OUR BEHALF.

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

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

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

No representation or warranty, express or implied, is made by Citigroup Global Markets Limited, Standard Chartered Bank and The Hongkong and Shanghai Banking Corporation Limited (the “Initial Purchasers”) or Citicorp International Limited (the “Trustee”) or any of their affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation, whether as to the past or the future.

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

We are not, and the Initial Purchasers are not, making an offer to sell the Notes (including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any)), in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Notes (including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any)), may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any

such restrictions. For a description of the restrictions on offers, sales and resales of the Notes, (including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), and distribution of this offering memorandum, see “Transfer Restrictions” and “Plan of Distribution” below.

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

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

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

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

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

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

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.6000 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2010, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK\$7.7810 to US\$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2010. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see “Exchange Rate Information.”

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

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) which may differ in certain material respects from generally accepted accounting principles in certain other countries. You should seek professional advice with respect to such differences in generally accepted principles.

Unless the context otherwise requires, references to “2008”, “2009” and “2010” in this offering memorandum are to our financial years ended December 31, 2008, 2009 and 2010, respectively.

References to “share” are to, unless the context indicates otherwise, an ordinary share, with a nominal value of HK\$0.10, in our share capital.

References to the “SCB 2009 Facility” are to the HK\$300 million term loan facility made available to the Company pursuant to an agreement dated April 27, 2009 between the Company and Standard Chartered Bank (Hong Kong) Limited as lender (as amended, supplemented or modified from time to time).

References to the “SCB 2011 Facility” are to the secured and guaranteed Hong Kong dollar denominated term loan facility with an aggregate principal amount of up to HK\$195 million made available to the Company pursuant to an agreement dated February 9, 2011 between the Company and Standard Chartered Bank (Hong Kong) Limited as lender.

A property is considered sold after we have executed the purchase contract with a customer and have delivered the property to the customer. Unless otherwise specified (i.e. “attributable GFA”), all site area and gross floor area (“GFA”) information presented in this offering memorandum represent the site area and GFA of the entire project, including those attributable to the minority shareholders of our non-wholly-owned project companies. References to “sq.m.” are to the measurement unit of square meters.

In this offering memorandum, a land grant contract refers to a state-owned land use rights grant contract (國有土地使用權出讓合同) between a developer and the relevant PRC governmental land administrative authorities, typically the local state-owned land bureaus. In this offering memorandum, a land use rights certificate refers to a state-owned land use rights certificate (國有土地使用證) issued by a local real estate and land resources bureau with respect to the land use rights; a construction land planning permit refers to a construction land planning permit (建設用地規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction works planning permit refers to a construction works planning permit (建設工程規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction permit refers to a construction works commencement permit (建築工程施工許可證) issued by local construction committees or equivalent authorities in China; a pre-sale permit refers to a commodity property pre-sale permit (商品房預售許可證) issued by local housing and building administrative bureaus or equivalent authorities with respect to the pre-sale of relevant properties; a certificate of completion refers to a construction project planning inspection and clearance certificate (建設工程規劃驗收合格證) issued by local urban zoning and planning bureaus or equivalent authorities or equivalent certificate issued by relevant authorities in China with respect to the completion of property projects subsequent to their on-site examination and inspection; and a property ownership certificate refers to a property ownership and land use rights certificate (房地產權證) issued by a local real estate and land resources bureau with respect to the land use rights and the ownership rights of the buildings on the relevant land.

Totals presented in this offering memorandum may not total correctly because of rounding of numbers.

FORWARD-LOOKING STATEMENTS

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

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

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

We have also been advised by our PRC legal adviser, Jingtian & Gongcheng, that there is uncertainty as to whether the courts of China would (a) enforce judgments of U.S. courts obtained against us, our directors or officers, any Subsidiary Guarantor or any JV Subsidiary Guarantor (if any) or their directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (b) entertain original actions brought in China against us, our directors or officers, any Subsidiary Guarantor or any JV Subsidiary Guarantor (if any) or their directors or officers predicated upon the U.S. federal or state securities laws.

PRESENTATION OF FINANCIAL INFORMATION

Financial Data

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards, or HKFRS, which differ in certain respects from generally accepted accounting principles in certain other countries. Unless the context otherwise requires, financial information in this offering memorandum is presented on a consolidated basis.

Rounding

Certain amounts and percentages included in this offering memorandum have been rounded. Accordingly, in certain instances, the sum of the numbers in a column may not equal the total figure for that column.

SUMMARY

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

Overview

We are a large scale property developer with a leadership position in Guangzhou and an established presence in Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan. We focus on medium- to high-end residential property developments with distinctive characteristics. To diversify our earnings mix, we also develop commercial properties in prime locations as long-term investments, including office buildings, shopping malls, serviced apartments and hotels. We commenced operation of our first office property, International Finance Place, in August 2007. In September 2009, we opened our first hotel, Four Points by Sheraton in Guangzhou, and are currently developing two additional high-end hotels in Guangzhou, including mainland China’s first W Hotel and Huadu Sheraton Resort as well as W Serviced Apartment, a high-end serviced apartment in Guangzhou. In addition, we are planning to develop six further high-end hotels and six high-end shopping malls in various cities including Guangzhou, Suzhou and Chengdu, as well as Hainan Province. Our hotels will be operated by internationally renowned hotel operators including affiliates of Starwood Hotels & Resorts Worldwide, Inc. (the “Starwood Hotels Group”). We believe our investment properties and hotels will help further strengthen our brand name. We also engage in property-related businesses such as property management for residential and commercial properties.

Historically, we have focused our property developments in Guangzhou, the capital of Guangdong Province and one of China’s largest cities, capturing the opportunities presented by its rapidly growing economy. In particular, we have focused on developments in prime locations, such as the Pearl River New Town, which in recent years has been promoted by the Guangzhou government as the “Central Business District” or “CBD.” The Guangzhou government has devoted significant resources and adopted certain favorable policies to develop the Pearl River New Town into Guangzhou’s new financial and commercial centre. For example, the Guangzhou City Library, the Guangdong Province Museum and the Guangzhou Opera House are all distinctive buildings in the Pearl River New Town which were completed in 2010, the year Guangzhou hosted the Asian Games. We intend to maintain our leadership position in Guangzhou’s property market while further enhancing our presence in Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan, where we have established operations. We also intend to expand in a prudent manner into other selected cities with high growth potential by leveraging our expertise in the regions where we operate, namely the Pearl River Delta (with a focus on Guangzhou), Yangtze River Delta (with a focus on Suzhou and Shanghai), Western Region (with a focus on Chengdu), and Bohai Rim (with a focus on Beijing and Tianjin). As of December 31, 2010, we had three completed projects and eight projects under development and held for future development in Guangzhou and one completed project and three projects under development in Suzhou, three projects in Chengdu, one project in Beijing, one project in Hainan Province, four projects in Shanghai and one project in Tianjin, at various stages of development.

We believe that we have been able to consistently achieve a premium price for our products in all the geographic locations where we operate. Our success is attributable to our premium quality products, distinctive designs and superior property management service, all of which have successfully distinguished us in the highly competitive property markets in Guangzhou and the other geographic locations where we operate. We have also been able to enhance customer confidence in our products and retain customer loyalty as indicated by high percentages of repeat customers and client referrals of our projects. We have received various awards in recognition of our premium quality products and our achievements as a property development company. For example:

- According to the E-House China R&D Institute, Beijing Fragrant Seasons was ranked among the top ten developments by GFA sold in Beijing in 2010, and according to the *Beijing News*, Beijing Fragrant Seasons was among the top 20 developments by sales proceeds in 2010.
- The Summit received the “2010 Best Villa Award” from the *Yangcheng Evening News*.
- Recognized as one of the “Top 100 Chinese Real Estate Enterprises in 2010 — Top 10 Profitable Enterprises” by the China Real Estate Association, Business Research Center of the Development Research Center of the State Council, Institute of Real Estate Studies of Tsinghua University, and China Index Research Institute.
- Our company was recognized as one of the “Top 20 Guangzhou Real Estate Development Enterprises by Sales Amount” by China Real Estate Evaluation Centre in 2009.
- *The Guangzhou Daily* recognized our company as one of the “Top 10 Property Developers Contributing to Residential Living in China on the 60th Anniversary of the Establishment of the PRC” in 2009.
- Suzhou Apex was awarded the “Most Popular Landmark Real Estate in Suzhou in 2010” by real estate internet portal, www.SouFun.com.
- The Apex in Guangzhou was recognized as “Best Quality Luxury Residence in Guangzhou 2009” by *SouFun.com*. Our Sky Ville project was selected as one of the “Top 10 Villas in Annual Real Estate Review 2009” by the *Yangcheng Evening News*.
- Chengdu Cosmos received “2009 — Golden Award of Property Development of the Year” by the Sichuan Daily Newspaper Group and Cheungdu Real Estate Management Bureau.
- Fragrant Seasons in Beijing was selected for the “Golden Award List of Top 10 Best-selling Property Developments of Beijing 2009” by the *Beijing Youth Daily*.

We commenced our property development business in 1995. As of December 31, 2010, we held four completed projects with a total site area of approximately 437,555 sq.m. and a total saleable GFA attributable to our Group of approximately 166,000 sq.m., and investment properties from residual projects with a total saleable GFA attributable to our Group of approximately 27,000 sq.m. (see “Business — Residual Properties”). As of December 31, 2010, we had 20 projects under development, including four projects being developed in the Pearl River New Town in Guangzhou, with a total site area of approximately 6,339,252 sq.m. and a total saleable GFA attributable to our Group of approximately 7,668,194 sq.m. As of December 31, 2010, we had one project held for future development with a total site area of approximately 748,877 sq.m. and a total saleable GFA attributable to our Group of approximately 560,000 sq.m.

In 2008, 2009 and 2010, we sold and delivered a total GFA of approximately 133,531 sq.m., 509,834 sq.m. and 784,116 sq.m., generating revenue from sale of properties of approximately RMB1,471.2 million, RMB4,110.0 million and RMB7,221.1 million (US\$1,094.1 million), respectively. During the same period, our profit for the year was approximately RMB366.2 million, RMB721.5 million and RMB1,281.8 million (US\$194.2 million), respectively.

Our Competitive Strengths

We believe our primary competitive strengths are:

- premium product quality;
- strong execution capability;
- prudent and disciplined land acquisition and expansion;
- steady roll-out of high-quality investment properties and hotels;
- strong cash flow and multiple financing channels;
- proven experience in joint venture projects and strong relationship with renowned domestic and international partners; and
- seasoned management team and efficient risk control system.

Our Business Strategies

Our business strategies are to:

- maintain leadership position in Guangzhou, enhance presence in other cities where we operate and conduct measured expansion in key regions;
- continue our focus on developing premium quality products;
- continue to seek mutually beneficial joint venture partnerships in project development; and
- continue to adopt prudent financial policy and proactive approach to capital structure.

Recent Developments

SCB 2011 Facility

On February 9, 2011, we signed a loan agreement with Standard Chartered Bank (Hong Kong) Limited (“SCB”) for a secured and guaranteed Hong Kong dollar denominated term loan facility with an aggregate principal amount of up to HK\$195 million. As of the date of this offering memorandum, the principal amount of the loan facility in Hong Kong dollars drawn down and outstanding is equivalent to US\$25 million. See “Description of Material Indebtedness and Other Obligations — Recent Material Indebtedness.”

Purchase of Shares in Shanghai Chengtou Yuecheng Real Estate Co., Ltd.

On January 20, 2011, following an auction of 30% of the registered capital of Shanghai Chengtou Yuecheng Real Estate Co., Ltd. (the “Shanghai Project Co”), which was held by Shanghai Chengtou Cityland (Group) Co., Ltd. (“SCC”), we and Shanghai R&F Real Estate Development Co., Ltd. (“Shanghai R&F”) entered into an equity transfer agreement with SCC to acquire the 30% registered capital of the Shanghai Project Co. The Shanghai Project Co holds parcels of land under development located at New Jiang Wan, Yangpu District, Shanghai. See “Business — Properties Under Development — Shanghai New Jiang Wan Project, Shanghai.” We are in the process of applying for relevant approvals and registration of this acquisition. Upon receipt of approvals and completion of registration, we expect to increase our ownership in the Shanghai New Jiang Wan Project from 35% to 50%. Pursuant to the equity transfer agreement, Shanghai R&F and we agreed to acquire the shares from SCC for a total consideration of approximately RMB1,014.3 million (US\$153.7 million).

New Projects Held for Future Development

In January 2011, we increased our projects held for future development by four to include the Shanghai Jiading D-07 Project, the Shanghai Jiading Chengbei Project, the Suzhou Yinshan Lake Project and the Hainan Moon Bay Project. The table below sets forth the GFA in sq.m. and other information of our four new projects held for future development as of January 31, 2011.

Project	Location	Site Area	Total GFA for Future Development ⁽¹⁾		Property Interest Attributable to the Group	Total GFA Attributable to the Group ⁽²⁾	Total Saleable GFA Attributable to the Group ⁽³⁾			Expected Completion Date of the Project
			Total GFA				Total	Held for Sale	Investment ⁽⁴⁾	
Projects Held for Future Development										
Shanghai Jiading D-07 Project	Shanghai	53,829	161,488	161,488	90%	145,339	145,339	95,339	50,000	2014
Shanghai Jiading Chengbei Project ⁽⁵⁾	Shanghai	77,180	154,360	154,360	100%	154,360	154,360	154,360	—	2014
Suzhou Yinshan Lake Project ⁽⁵⁾	Suzhou	63,944	159,860	159,860	100%	159,860	159,860	159,860	—	2014
Hainan Moon Bay Project	Hainan	202,080	107,898	107,898	100%	107,898	107,898	41,152	66,746	2016

Notes:

- (1) “Total GFA for Future Development” is derived from our internal records and estimates.
- (2) “Total GFA Attributable to the Group” is the total GFA that we are entitled to after apportionment of GFA in accordance with “Property Interest Attributable to the Group.”
- (3) “Total Saleable GFA Attributable to the Group” for projects held for future development represents our attributable saleable GFA for the projects as of January 31, 2011.
- (4) For lease and hotel purposes, including, among others, office, hotel, serviced apartments and shopping mall.
- (5) We entered into land grant confirmation letters for the land related to this project, but have not entered into land grant contracts or obtained land use right certificates.

The following paragraphs describe our four new projects held for future development as of January 31, 2011:

Shanghai Jiading D-07 Project (上海嘉定D-07項目), Shanghai

Shanghai Jiading D-07 Project is a commercial development located in Jiading District, Shanghai. It is close to Line 11 of the Shanghai Metro. The project occupies a total site area of approximately 53,829 sq.m. The project is expected to feature a hotel, serviced apartments and other commercial properties. As of January 31, 2011, total saleable GFA attributable to the Group was approximately 145,339 sq.m., of which 95,339 sq.m. was held for sale and 50,000 sq.m. was held for investment purposes. We have a 90% ownership interest in this project.

Shanghai Jiading Chengbei Project (上海嘉定城北項目), Shanghai

Shanghai Jiading Chengbei Project is a residential development located in Jiading District, Shanghai. It is close to Line 11 of the Shanghai Metro. The project occupies a total site area of approximately 77,180 sq.m. We entered into land grant confirmation letters for the land related to this project, but have not entered into land grant contracts or obtained the land use right certificates. As of January 31, 2011, total saleable GFA attributable to the Group was approximately 154,360 sq.m., all of which was held for sale. We have a 100% ownership interest in this project.

Suzhou Yinshan Lake Project (蘇州尹山湖項目), Suzhou

Suzhou Yinshan Lake Project is an integrated development located in Wuzhong District, Suzhou City. It is close to Line 4 of the Suzhou Subway. The project is expected to feature residential and commercial developments. The project occupies a total site area of approximately 63,944 sq.m. We entered into land grant confirmation letters for the land related to this project, but have not entered into land grant contracts or obtained the land use right certificates. As of January 31, 2011, total saleable GFA attributable to the Group was approximately 159,860 sq.m., all of which was held for sale. We have a 100% ownership interest in this project.

Hainan Moon Bay Project (海南月亮灣項目), Hainan

The Hainan Moon Bay Project is an integrated residential, commercial and hotel development with scenic views located in the Moon Bay Scenic Area within Longlou Town, Wenchang City, Hainan. The project occupies a total site area of approximately 202,080 sq.m. As of January 31, 2011, total saleable GFA attributable to the Group was approximately 107,898 sq.m., of which 41,152 sq.m. was held for sale and 66,746 sq.m. was held for investment purposes. We have a 100% ownership interest in this project.

General Information

We were incorporated in the Cayman Islands on July 28, 2006 as an exempted company with limited liability. Our principal place of business in the PRC is at International Finance Place, No. 8 Huaxia Road, Pearl River New Town, Guangzhou, China. Our place of business in Hong Kong is at Suite 7506, Level 75, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Our website is www.kwgproperty.com. Information contained on our website does not constitute part of this offering memorandum.

THE OFFERING

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

Issuer	KWG Property Holding Limited (the “Company”).
Notes Offered.	US\$350,000,000 aggregate principal amount of 12.75% Senior Notes due 2016 (the “Notes”).
Offering Price.	100% of the principal amount of the Notes.
Maturity Date	March 30, 2016.
Interest	The Notes will bear interest, at a rate of 12.75% <i>per annum</i> , payable semi-annually in arrears on March 30 and September 30 of each year, commencing September 30, 2011.
Ranking of the Notes . . .	The Notes are: <ul style="list-style-type: none">● general obligations of the Company;● senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;● at least <i>pari passu</i> in right of payment against the Company with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);● guaranteed by the Subsidiary Guarantors and JV Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption “— Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;● effectively subordinated to the other secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors to the extent of the value of the assets serving as security therefor; and● effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

After the pledge of the Collateral (as defined below) by the Company and the Subsidiary Guarantor Pledgors (as defined below) and the entry into the Intercreditor Agreement (as defined below) and subject to certain limitations described under “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Notes will:

- be entitled to a first priority lien on the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors (subject to any permitted liens and the Intercreditor Agreement) shared on a *pari passu* basis among (i) the lender under the SCB 2009 Facility, (ii) the lender under the SCB 2011 Facility, (iii) the holders of the 2010 Notes, (iv) the holders of the Notes and (v) any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness; and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees. . . Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than (i) those Restricted Subsidiaries organized under the laws of the PRC and (ii) the Other Non-Guarantor Subsidiaries listed under “Description of the Notes — The Subsidiary Guarantees.” See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — Our initial Subsidiary Guarantors do not currently have significant operations.”

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC) to guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor.

A Subsidiary Guarantee may be released or replaced in certain circumstances. See “Description of the Notes — The Subsidiary Guarantees — Release of the Subsidiary Guarantees and JV Subsidiary Guarantees.”

Ranking of Subsidiary Guarantees

The Subsidiary Guarantee of each Subsidiary Guarantor:

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

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

JV Subsidiary Guarantees

A JV Subsidiary Guarantee is required to be delivered by a Subsidiary Guarantor if the Company wishes to release such Subsidiary Guarantor from its Subsidiary Guarantee following a sale by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale is for no less than 20% and no more than 49.9% of the issued Capital Stock of the relevant Subsidiary Guarantor. No JV Subsidiary Guarantee exists as of the Original Issue Date. The JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

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

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

Security to be Granted . . . The Company has agreed, for the benefit of the holders of the Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each initial Subsidiary Guarantor other than Market Network Limited (collectively, the “Collateral”) in order to secure the obligations of the Company under the Notes and each Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Collateral will be shared on a *pari passu* basis by the holders of the Notes and the holders of other secured indebtedness including the lender under the SCB 2009 Facility, the SCB 2011 Facility, the holders of the 2010 Notes and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness. See “Description of the Notes — Security.”

Intercreditor Agreement . . . The Company, the initial Subsidiary Guarantor Pledgors, the Shared Security Agent, the 2010 Trustee and Standard Chartered Bank (Hong Kong) Limited have entered into an intercreditor agreement dated August 18, 2010 as amended and supplemented by a supplemental intercreditor agreement dated February 9, 2011, by and among Standard Chartered Bank (Hong Kong) Limited as the lender under the SCB 2011 Facility, the Shared Security Agent, the Company and the Subsidiary Guarantor Pledgors named therein, to which the Trustee for the Notes will accede. This agreement provides that the security interests created by the Collateral will be shared on a *pari passu* basis among (i) the lender under the SCB 2009 Facility, (ii) the lender under the SCB 2011 Facility, (iii) the holders of the 2010 Notes, (iv) the holders of the Notes and (v) any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness.

Use of Proceeds We intend to use the net proceeds to finance existing and new property projects.

Optional Redemption of the Notes At any time and from time to time on or after March 30, 2014, the Company may at its option redeem the Notes, in whole or in part, at the redemption prices set forth in “Description of the Notes — Optional Redemption” plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to March 30, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of 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 Notes — Optional Redemption.”

At any time and from time to time prior to March 30, 2014, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 112.75% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Repurchase of Notes
Upon a Change of
Control Triggering
Event Upon the occurrence of a Change of Control Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the repurchase date. See “Description of the Notes — Repurchase of Notes Upon a Change of Control Triggering Event.”

Redemption for Taxation
Reason Subject to certain exceptions and as more fully described herein, the Company may redeem 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, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor would become obliged to pay certain additional amounts as a result of certain changes in specified tax laws. See “Description of the Notes — Redemption for Taxation Reasons.”

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

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

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

Transfer Restrictions The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”

Form, Denomination and Registration The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 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 “Description of the Notes — Book-Entry; Delivery and Form.”

Delivery of the Notes The Company expects to make delivery of the Notes, against payment in same-day funds on or about March 30, 2011 which the Company expects will be the fifth business day following the date of this offering memorandum, referred to as “T+5”. You should note that initial trading of the Notes may be affected by the T+5 settlement. See “Plan of Distribution.”

Trustee Citicorp International Limited

Principal Paying and Transfer Agent Citibank, N.A., London Branch

Registrar Citigroup Global Markets Deutschland AG

Shared Security Agent Citicorp International Limited

Listings Approval in-principle has been received for the listing of the Notes on the SGX-ST.

Ratings The Notes are expected to be rated B+ by Standard and Poor’s Rating Services and B1 by Moody’s Investors Service. We cannot assure investors that these ratings will not be adversely revised or withdrawn either before or after delivery of the Notes.

Governing Law The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.

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

Security Codes	ISIN	Common Code
	XS0606309846	060630984

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated income statement for the years ended December 31, 2008, 2009 and 2010 and the summary consolidated statement of financial position data as of December 31, 2008, 2009 and 2010 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by Ernst & Young, independent certified public accountants, and included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Summary Consolidated Statement of Financial Position Data

	As of December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	US\$
	(in thousands)			
NON-CURRENT ASSETS				
Property, plant and equipment	443,268	981,508	1,343,901	203,621
Investment properties	3,546,400	3,501,460	3,461,980	524,542
Land use rights.	549,952	572,833	866,274	131,254
Investments in associates	—	1,348,990	3,403,588	515,695
Investments in jointly-controlled entities	20,487	1,228,036	5,434,914	823,472
Deferred tax assets	168,453	398,325	603,560	91,449
Long term prepayment	1,098,483	—	—	—
Total non-current assets	<u>5,827,043</u>	<u>8,031,152</u>	<u>15,114,217</u>	<u>2,290,032</u>
CURRENT ASSETS				
Properties under development	11,878,560	13,951,102	13,730,027	2,080,307
Completed properties held for sale	1,534,404	2,300,415	2,553,758	386,933
Trade receivables	30,713	147,413	47,687	7,225
Prepayments, deposits and other receivables	1,069,487	453,039	1,679,437	254,460
Due from a jointly-controlled entity	50,314	46,999	46,155	6,993
Taxes recoverable	3,316	24,492	59,450	9,008
Restricted cash	205,942	1,069,876	1,527,992	231,514
Cash and cash equivalents	1,167,009	2,540,698	5,275,609	799,335
Total current assets.	<u>15,939,745</u>	<u>20,534,034</u>	<u>24,920,115</u>	<u>3,775,775</u>
CURRENT LIABILITIES				
Trade payables	2,879,007	1,415,470	1,670,898	253,166
Other payables and accruals.	2,063,396	5,222,361	8,745,262	1,325,040
Due to associates	—	129,956	442,382	67,028
Due to a jointly-controlled entity	—	—	73,454	11,129
Interest-bearing bank and other borrowings.	1,058,928	2,566,628	2,281,674	345,708
Taxes payable.	1,012,289	1,418,808	2,217,971	336,056
Total current liabilities	<u>7,013,620</u>	<u>10,753,223</u>	<u>15,431,641</u>	<u>2,338,127</u>
NET CURRENT ASSETS.	<u>8,926,125</u>	<u>9,780,811</u>	<u>9,488,474</u>	<u>1,437,648</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>14,753,168</u>	<u>17,811,963</u>	<u>24,602,691</u>	<u>3,727,681</u>

	As of December 31,			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>
	RMB	RMB	RMB	US\$
	(in thousands)			
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	4,935,253	6,078,852	10,049,956	1,522,721
Deferred tax liabilities	626,704	624,788	669,168	101,389
Deferred revenue	—	700,000	700,000	106,061
Other non-current liabilities	—	—	1,589,295	240,802
Total non-current liabilities	<u>5,561,957</u>	<u>7,403,640</u>	<u>13,008,419</u>	<u>1,970,973</u>
Net assets	<u>9,191,211</u>	<u>10,408,323</u>	<u>11,594,272</u>	<u>1,756,707</u>
EQUITY				
Equity attributable to owners of the parent				
Issued capital	254,093	280,538	280,485	42,498
Treasury shares	—	(3,041)	—	—
Reserves	8,136,797	9,982,514	10,985,534	1,664,475
Proposed final dividends	77,813	144,658	318,247	48,219
	<u>8,468,703</u>	<u>10,404,669</u>	<u>11,584,266</u>	<u>1,755,192</u>
Minority interests	722,508	3,654	10,006	1,516
Total equity	<u>9,191,211</u>	<u>10,408,323</u>	<u>11,594,272</u>	<u>1,756,708</u>

RISK FACTORS

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

Risks Relating to Our Business

We are heavily dependent on the performance of the PRC property market, particularly in Guangzhou, Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan

Our business and prospects depend on the performance of the property market in the PRC. As of December 31, 2010, we had 25 projects at various stages of development located in Guangzhou, Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan, four of which were completed, and 21 of which were under development or held for future development. As of December 31, 2010, we had three completed projects and eight projects under development and held for future development in Guangzhou. Any property market downturn in the PRC generally or, in particular, in Guangzhou and other cities and regions where we operate, could adversely affect our business, results of operations and financial condition. We cannot assure you that the demand for new properties in Guangzhou and other regions and cities in China where we operate or intend to expand will continue to grow or that prices will not deteriorate. In addition, volatility in market conditions and fluctuations in property prices, as well as the demand for properties have been affected and will continue to be affected by the economic, social, political and other factors that are outside of our control and we cannot assure you that there will not be over-supply of properties or an economic downturn in the property sectors in Guangzhou and other cities and regions of China. Any such over-supply or economic downturn may result in a slow down in property sales or downward pressure on property prices regionally or nationwide. Any adverse development in the property market in Guangzhou or other regions and cities in China where we operate or may operate in the future could have a material and adverse effect on our business, results of operations and financial condition.

Our business, financial condition and results of operations have been and will continue to be dependent on the state of the PRC property market, particularly in Guangzhou, Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan, and our business may be affected by adverse developments in the supply and demand for properties or adverse change in property prices in the PRC. Any adverse development in the property market in the regions and cities in China where we operate or may operate in the future could have a material and adverse effect on our business, results of operations and financial condition.

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

Our business is subject to extensive governmental regulation and the macro-economic control measures implemented by the PRC government from time to time. As with other PRC property developers, we must comply with various requirements mandated by the PRC laws and regulations, including the policies and procedures established by local authorities designated to implement such

laws and regulations. In particular, the PRC government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, control of foreign exchange, property financing, 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. In November 2010, the Ministry of Commerce (“MOFCOM”) promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into Real Estate Industry (關於加強外商投資房地產業審批備案管理的通知), which provides that, among other things, in the case that a real estate enterprise is established in China with overseas capital, it is prohibited to purchase and/or sell real estate properties completed or under construction for arbitrage purposes. The local MOFCOM authorities are not permitted to approve investment companies to engage in the real estate development and management. Restrictions imposed by the PRC government on foreign investment in the property sector may affect our ability to make further investments in our PRC subsidiaries and, as a result, may limit our business growth and have an adverse effect on our business, financial condition and results of operations.

The PRC government has announced a series of other recent measures designed to stabilize the growth of the PRC economy and to stabilize the growth of specific sectors, including the property market, to a more sustainable level.

- On April 17, 2010, the State Council issued the Notice on Resolutely Curbing the Rapid Rising of the House Price in Certain Cities (Guofa (2010) No. 10) (國務院關於堅決遏制部分城市房價過快上漲的通知), which stipulated that the down payment for the first property bought with mortgage loans that is larger than 90 sq.m. shall be not less than 30% of the purchase price, down payment for the second property bought with mortgage loans shall be not less than 50% of the purchase price and the loan interest rate shall be not lower than 110% of the benchmark lending rate published by the People’s Bank of China (the “PBOC”). In certain areas where commodity residential properties are in short supply and prices rise too quickly, the banks may suspend mortgage loans for the third or further properties bought by mortgage applicants or to non-residents who cannot provide any proof of tax or social insurance payment for more than one year.
- On April 30, 2010, the Beijing Municipal Government issued the Circular on Implementation of the Notice on Containing the Excessive Hike of Property Price in Some Cities by the State Council (北京市人民政府貫徹落實國務院關於堅決遏制部分城市房價上漲文件的通知), under which one household is allowed to purchase only one new residential unit in Beijing.
- On May 18, 2010, the Guangzhou Municipal Government issued the Opinion on the Implementation of the Notice on Resolutely Curbing the Rapid Rising of the House Price in Certain Cities by the State Council. (關於貫徹落實國務院關於堅決遏制部分城市房價過快上漲的通知精神努力實現住有所居的意見), which reiterates and specifies the above regulations by the State Council.
- On May 19, 2010, the State Administration of Taxation (the “SAT”) issued the Circular on Settlement of Land Appreciation Tax (關於土地增值稅清算有關問題的通知) to clarify and strengthen the settlement of the land appreciation tax. Furthermore, on May 25, 2010, the SAT issued the Notice on Strengthening the Collection of Land Appreciation

Tax (關於加強土地增值稅徵管工作的通知), which requires that the minimum LAT prepayment rate shall be 2% for provinces in the eastern region, 1.5% for provinces in the central and northeastern regions, and 1% for provinces in the western region. If the LAT is calculated based on the authorized taxation method (核定徵收), the minimum taxation rate shall be 5% in principle. For more details, see “Regulations — Taxation in China — Land Appreciation Tax.”

- On May 26, 2010, the Ministry of Housing and Urban-Rural Development (the “MOHURD”), PBOC, and the China Banking Regulatory Commission (中國銀行業監督管理委員會) (the “CBRC”) jointly issued the Circular on Standardizing the Assessing Criteria of the Second Home for Personal Mortgage Loans (關於規範商業性個人住房貸款中第二套住房認定標準的通知), under which a stricter standard will be adopted in assessing whether a house to be bought is a second home when granting mortgage loans. The new standard will be based on property ownership, not mortgage history, and the unit for the number of the houses will be determined in terms of family (including the borrower, his spouse and minor children), rather than individuals. Home buyers are required to provide a registration record from the local housing registration system when applying for mortgage loans. If it is impossible to check the purchasing record, loan applicants are required to submit a certification listing the number of homes owned by the applicant’s family. The banks will examine both the number of the homes owned by the applicant’s family and the applicant’s previous mortgage and purchasing record in order to counter speculative activities. The banks will define a loan applicant as a second-home buyer as long as the applicant has taken out a mortgage loan previously, or his family has a home ownership record in the housing registration system, or it is confirmed that his family has owned a property based on due diligence.
- On September 21, 2010, the Ministry of Land and Resources and the MOHURD jointly promulgated the Notice on Further Strengthening the Administration and Control of the Lands for Real Estates and the Construction of Real Estates (關於進一步加強房地產用地和建設管理調控的通知) to tighten the examination of qualifications of land bidders.
- On September 29, 2010, the PBOC and the CBRC jointly issued the Circular on Issues Concerning Improving Differentiated Housing Loan Policies (關於完善差別化住房信貸政策有關問題的通知), which raised the minimum down payment to 30% for all first home purchase with mortgage loans, and stipulates that for any family that uses loans to buy a second home, the down payment ratio shall not be lower than 50% and loan interest rate shall not be lower than 1.1 times the benchmark loan interest rate, and all commercial banks shall suspend issuing housing loans to home buyers whose family members already own two or more housing properties and to non-local residents who cannot provide evidence showing that they have paid taxes or social insurance contributions for more than one year.
- On November 2, 2010, the Ministry of Finance, the MOHURD, the CBRC and the PBOC jointly issued the Circular on Issues Concerning Policies on Regulation of Personal Housing Provident Fund Loan (關於規範住房公積金個人住房貸款政策有關問題的通知), which provides that where personal housing provident fund loan is used to buy the first ordinary self-use house and the floor area of the house is no more than 90 sq.m., the down-payment proportion shall not be lower than 20%; where the floor area of the house is more than 90 sq.m., the down-payment proportion shall not be lower than 30%. Only the housing provident fund-paying families whose floor area per capita is less than local average shall have access to personal housing provident fund loan which is used to buy the

second house, and the loan shall be used to buy ordinary self-use house so as to improve dwelling conditions. Where the personal housing provident fund loan is used to buy the second house, the down-payment proportion shall not be lower than 50%, and the interest rate of such loan shall not be less than 1.1 times of the interest rate of the personal housing provident fund loan for the purchase of the first house. Personal housing provident fund loan for the purchase of a third or more houses by housing provident fund-paying families shall be suspended.

- On January 26, 2011, the General Office of the State Council issued the Notice concerning Further Strengthening the Macroeconomic Control of the Real Property Market (進一步做好房地產市場調控工作有關問題的通知), which, among others, raised the minimum down payment for second house purchases from 50% to 60%, with the minimum lending interest rate at 110% of the benchmark rate. Furthermore, many cities have promulgated measures to restrict the number of houses one family is allowed to newly purchase in order to implement the aforesaid Notice, such as Guangzhou, Tianjin, Beijing, Shanghai, Suzhou, Qingdao, Jinan, Chengdu and Foshan. In order to implement the central government's requirement, other cities in China where our property projects are located may also issue similar restrictive measures in the near future which may impose adverse effects on our business.
- The State Council also recently approved, on a trial basis, the launch of a new property tax scheme in selected cities. The detailed measures will be formulated by the governments of the pilot provinces, autonomous regions or municipalities directly under the central government. 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. See "Regulations — Taxation in China — Property Taxes." These two governments may issue additional measures to tighten the levy of property tax. It is also expected that more local governments will follow Shanghai and Chongqing in imposing property tax on commodity properties. The imposition of property tax on commodity properties will increase the purchasing cost of properties and is expected to have a negative impact on demand for properties in China, which in turn could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that property development and investment activities will continue at past levels or that there will not be an economic downturn in the property markets in the regions and cities where we operate.

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. We cannot assure you that the PRC government will not adopt additional and more stringent industry policies, regulations and measures in the future.

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.

You should read the various risk factors under the section entitled "— Risks Relating to the Property Industry in China — The PRC government may adopt further measures to slow down growth in the property sector" below for more information relating to these risks and uncertainties.

Our results of operations may vary significantly from period to period

Our results of operations may vary significantly from period to period, due to a number of factors, including the timetables of our property development projects, the timing of the sale of properties that we have developed, our revenue recognition policies and any volatility in expenses such as raw material costs. The overall schedules of our property development and the number of properties that we can develop or complete during any particular period are limited as a result of the substantial capital required for the acquisition of land, demolition and resettlement and construction. The sale of properties we develop is subject to general market or economic conditions in the areas where we conduct our business and the level of acceptance of our properties by prospective customers. According to our accounting policy, we recognize revenue upon the completion and delivery of the properties to purchasers, which may typically take up to two years after the commencement of pre-sales. Therefore, in periods in which we pre-sell a large aggregate GFA, we may not generate a correspondingly high level of revenue if the properties pre-sold are not delivered within the same period. In addition, our business depends on obtaining adequate supplies of raw materials and is subject to fluctuation in the market prices of raw materials. The prices that we pay for raw materials may increase due to increased industry demand, inflation, higher fuel and transportation costs and other factors. We will continue to experience significant fluctuations in revenue and profit from period to period in connection with our property development business. We therefore believe that period-to-period comparisons of our operating results may not be as meaningful as they would be for a company with more stable recurring revenue.

We may not always be able to obtain land reserves that are suitable for development

We derive our revenue principally from the sale of properties that we have developed. Therefore, we must maintain or increase our land reserves in strategic locations at an appropriate pace in order to ensure sustainable business growth. Based on our current rate of property development, we believe we have sufficient land reserves for development for the next several years. To have a steady stream of developed properties available for sale and support sustainable growth, we need to replenish and increase our land reserves with additional land suitable for development.

Our ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond our control. The supply of substantially all of the land in China is controlled by the PRC government. The land supply policies adopted by the PRC government directly impact our ability to acquire land use rights for development and our costs of such acquisitions. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which property developers may obtain land. The PRC government also controls land supply through zoning, land usage regulations and other means. All these measures further intensify the competition for land in China among property developers. In 2002, the PRC government introduced a nationwide system of mandatory public tender, auction or listing-for-sale for the grant of land use rights for commercial use, tourism, entertainment and commodity property development. In 2007, the Ministry of Land and Resources of the PRC (the “Ministry of Land and Resources”) issued revised Rules on the Grant of State-owned Land Use Rights through Public Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有建設用地使用權規定), which further stipulate legal and procedural requirements on the means by which state-owned land use rights can be granted by the PRC government for industrial purposes, commercial purposes, tourism, entertainment and commodity property development, and require that the land premium must be paid in full to the local land administration bureau pursuant to the underlying land grant contract before the land use rights certificate can be issued to the land user. For more details, see “— Risks Relating to the Real Estate Industry in China — The PRC government may adopt further

measures to slow down growth in the property sector.” The PRC government’s policy to grant state-owned land use rights at competitive market prices is likely to increase the acquisition cost of land reserves generally in the PRC.

In addition, in September 2010, the Ministry of Land Resources and the MOHURD, jointly issued the Notice on Further Strengthening the Administration and Control of Real Estate Land and Construction (關於進一步加強房地產用地和建設管理調控的通知), which stipulates, among other things, that the planning and construction conditions and land use standards should be specified when a parcel of land is to be granted, and the restrictions on the area of any parcel of land granted for commodity properties should be strictly implemented. The development and construction of large low-density residential properties should be strictly restricted, and the plot ratio for residential land is required to be more than 1:1. In addition, a property developer and its shareholders will be prohibited from participating in any bidding to acquire additional land until any illegal behavior in which it has engaged, such as leaving its land idle for more than one year, has been completely rectified. The implementation of these regulations may increase land transfer prices and require property developers to maintain a higher level of working capital.

If we fail to acquire sufficient land reserves in a timely manner and at acceptable terms, or at all, our business, prospects, results of operations and financial condition may be materially and adversely affected.

We may not always be able to obtain land use rights certificates with respect to certain parcels of land in connection with which we have entered into various contractual arrangements

We may not be able to obtain land use rights certificates with respect to certain parcels of land. Under current PRC land grant policies, the relevant authorities will not issue the formal land use right certificate for a piece of land until the developer has paid the land premium in full, completed the resettlement process and is in compliance with other land grant conditions, and the land use rights for properties and lands will not be formally vested until corresponding land use right certificates have been issued. As of December 31, 2010, there were several parcels of land related to The Sapphire, Foshan Project, Chengdu Jinjiang Project, Shanghai Jiading E-06 Project, Shanghai Pudong Project, Tianjin Jinnan Project and Lie De Project, for which we have been issued or entered into land grant confirmation letters or land grant contracts but have not obtained the land use rights certificates. In connection with these land acquisitions, as of December 31, 2010, we had paid land premium in the aggregate amount of RMB7,376.9 million (US\$1,117.7 million) and had outstanding commitments totaling approximately RMB2,459.0 million (US\$372.6 million).

We cannot assure you that we will enter into formal land grant contracts, or that the relevant PRC government authorities will grant us the appropriate land use rights or issue the relevant land use rights certificates in respect of these parcels of land or in respect of other land we may contract to acquire in the future, in a timely manner, or at all. Nor can we assure you that our contractual arrangements will eventually result in our acquisition of any land use rights. As these contractual arrangements are subject to various government approvals that involve relatively complex procedures, it is not uncommon to take years to complete the acquisition of the underlying land, if at all. If we fail to obtain, or experience material delay in obtaining, the land use rights certificates with respect to any parcels of land we have contracted or may contract to acquire in the future, in a timely manner, or at all, our business, results of operations and financial condition may be materially and adversely affected. Furthermore, we cannot assure you that if the transactions as contemplated in the relevant agreement cannot be completed, any refund of our prepayments will be provided in a timely manner or at all. If we fail to obtain refunds, our financial condition, cash flow and results of operations may be materially and adversely affected.

Restrictions on the payment terms for land use rights may adversely affect our financial condition

The fiscal and other measures adopted by the PRC government from time to time may limit our flexibility and ability to use bank loans to finance our property developments and therefore may require us to maintain a relatively high level of internally-sourced cash. In November 2009, the PRC government raised the minimum land premium down payment to 50%. In March 2010, this requirement was further tightened. The PRC government set 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 must be entered into within 10 working days after the land grant deal is closed, and the down payment of 50% of the land premium is to be paid within one month of signing the land grant contract, with the remainder to be paid in full within one year of the date of the land grant contract, subject to limited exceptions. Such change of policy may constrain our cash otherwise available for additional land acquisition and construction. We cannot assure you that we will have adequate resources to fund land acquisitions (including any unpaid land premiums for past acquisitions), or property developments.

In 2007, the Ministry of Land and Resources issued revised “Rules regarding the Grant of State-owned Land Use Rights for Construction by Way of Tender, Auction and Listing-for-sale” (招標拍賣掛牌出讓國有建設用地使用權規定), which provides 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 commence development on the land. This regulation became effective on November 1, 2007. As a result, property developers are not allowed to bid for a large piece of land, make partial payment, and then apply for a land use rights certificate for the corresponding portion of land in order to commence development, which had been the practice in many Chinese cities. The implementation of such regulation requires property developers to maintain a higher level of working capital, which may have a material adverse effect on our cash flow position, financial condition and business plans.

We may not have adequate financing to fund our land acquisitions and property projects

Property development is capital intensive. We finance our property projects primarily through a combination of internal funds, project loans from banks, capital contributions from shareholders, proceeds from pre-sales and sales of our developed properties and other financing sources such as our issuance of the 2010 Notes. See “Description of Material Indebtedness and Other Obligations — 2010 Notes”. As of December 31, 2010, our total bank loans amounted to RMB10,713.3 million (US\$1,623.2 million). Our ability to procure adequate and suitable financing for acquisitions of land or companies and property developments depends on a number of factors that are beyond our control, including general economic conditions, our financial strength and performance, credit availability from financial institutions, financing costs and monetary policies in China.

The PRC government has in recent years implemented a number of measures to control money supply and credit availability for fixed asset investments, particularly with respect to the property development sector. For example:

- The PBOC has prohibited commercial banks from granting loans to property developers to pay land premiums since June 2003;
- The PBOC has restricted PRC commercial banks from granting project loans for the development of luxury residential properties since 2003;
- The MOHURD (also known as the “Ministry of Construction”) (中華人民共和國住房和城鄉建設部) and other PRC government authorities jointly issued the Opinions on Adjusting the Housing Supply Structure and Stabilizing the Housing Prices (關於調整住房供應結構穩定住房價格的意見) in May 2006, which, among other things,
 - restrict the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties; and
 - prohibit commercial banks from taking commodity properties that have been vacant for more than three years as security for their loans;
- The State Administration of Foreign Exchange of the PRC (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 Ministry of Commerce (關於下發第一批通過商務部備案的外商投資房地產項目名單的通知) in July 2007, which, among other things,
 - effectively prohibits offshore funding to Foreign Invested Real Estate Enterprises (“FIREEs”) in the form of loans after June 1, 2007; and
 - restricts the ability of FIREEs to raise funds by increasing registered capital; and
- The PBOC and the CBRC jointly issued the Circular on Strengthening the Administration of Commercial Real Estate Credit Loans (關於加強商業性房地產信貸管理的通知) in September 2007, which, among other things,
 - prohibits commercial banks from granting loans to property projects if the developer’s own capital is less than 35% of the total investment amount;
 - prohibits commercial banks from granting loans to property projects that have not obtained land use rights certificates, construction land planning permits, construction works planning permits and construction works commencement permits;
 - requires that commercial bank loans to property developers be classified as real estate development loans and not as general working capital loans; and
 - requires that real estate development loan proceeds may only be used for developments in the local city where the loan is originated.

- In November 2009, the PRC government raised the minimum down-payment of land premium to 50% and now requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions; and
- In March 2010, the Ministry of Land and Resources of PRC stipulated that the minimum down payment of land premium of 50% should be paid within one month after the signing of a land grant contract and the rest of the land premium should be fully paid within one year after the signing of a land grant contract.

On January 3, 2008, the State Council issued a Notice on Promoting the Economic Use of Land (關於促進節約集約用地的通知) with respect to the collection of additional land premium, establishment of a land utilization priority planning scheme and the formulation of a system for assessing the optimal use of land and other measures. The notice calls for the full and effective use of existing construction land and the preservation of farm land. The notice also emphasizes the enforcement of the current rules on assessing idle land fees at a rate equal to 20% of the land premium for any land left idle for over one year but less than two years. The notice also urges financial institutions to exercise caution when they review loan applications from property developers that have failed to complete development of at least one-third of the land area or to invest at least 25% of the total investment within one year of the construction date provided in the land grant contract. The notice states that a value-added land premium will be levied on the idle land, especially on those used for property development, and the relevant rules will be formulated jointly by the Ministry of Land and Resources and other authorities. The notice indicates that the relevant governmental authorities will formulate and issue additional rules and regulations on these matters.

In addition, the PBOC has adjusted the reserve requirement ratio for commercial banks six times in 2010 and three times in 2011. The reserve requirement ratio currently ranges from 16.5% to 20% with effect from March 25, 2011. Such increases may negatively impact the amount of funds available to lend to business, including us, by commercial banks in China. The PRC government could also introduce other initiatives that may further limit our access to capital, and/or consequently reduce our flexibility and ability to use bank loans or other forms of financing to finance our acquisitions and property developments. For example, in April 2010, the State Council issued the Notice on Resolutely Curbing the Excessive Hike of Property Prices in Some Cities (國務院關於堅決遏制部分城市房價過快上漲的通知), which mandates that developers who hold idle land or speculate in land will not be granted bank loans for the development of new property projects. In September 2010, PBOC and CBRC jointly issued a notice to prohibit banks from lending to any property developer for its new projects or renewal of its existing loans if such developer has a track record of maintaining idle land, changing the use and nature of land without proper approval, delaying the construction, commencement or completion date, hoarding properties or other non-compliance.

These government actions and policy initiatives limit our ability to use bank loans to finance our acquisitions and property development projects. The PRC government, moreover, could introduce other initiatives which may further limit our access to capital, and consequently limit our ability to obtain bank loans, the net proceeds from this offering or other forms of financing. If we fail to secure adequate financing or renew our existing credit facilities prior to their expiration, or if the PRC government adopts further restrictive credit policies in the future, our business, results of operations and financial condition may be materially and adversely affected.

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

In accordance with the provisions of the Provisional Regulations of the People's Republic of China on Land Appreciation Tax ("LAT") (中華人民共和國土地增值稅暫行條例) and the related implementation rules, all entities and individuals that receive income from the sale or transfer of land use rights, buildings and ancillary facilities are subject to LAT at progressive rates ranging from 30% to 60% of the appreciated value of such properties. The PRC government issues rules and regulations in respect of LAT, including rules and regulations relating to assessable rates, the deductibility of certain expenses and the collection and settlement of LAT. In addition, the PRC Government has determined that provincial and local tax bureaus may formulate their own implementing rules and determine how LAT will be settled in their jurisdiction. For more details, see "Regulations — Taxation in China — Land Appreciation Tax." There is an exemption for the sale of ordinary residential properties if the appreciated value does not exceed 20% of the total deductible expense items allowed under the relevant LAT regulations. This exemption is not available for sales of luxury residential properties, villas and commercial properties. It is not clear whether the residential portion of our mixed residential and commercial developments will be eligible for the exemption available to ordinary residential properties.

We make LAT prepayments and provisions in respect of our property development activities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — LAT" in this offering memorandum. We cannot assure you that the relevant tax authorities will agree with our calculation of LAT liabilities nor can we assure you that the LAT provisions will be sufficient to cover our LAT obligations in respect of our past LAT liabilities. If the relevant tax authorities, in particular, the local tax bureau of Guangzhou and other cities and regions where we operate our business, determine that our LAT liabilities exceed our LAT prepayments and provisions, and seek to collect that excess amount immediately, our cash flow, results of operations and financial condition may be materially and adversely affected.

We experienced net cash outflows from operating activities in 2008 and 2009 and maintain a significant amount of indebtedness, which may materially and adversely affect our liquidity and our ability to service our indebtedness

We had a net cash outflow from operating activities of RMB4,711.7 million in 2008 and RMB398.0 million in 2009. We experienced consistent net operating cash outflows in 2008 and 2009, principally because during those periods we committed substantial resources to the development of new properties under development.

We maintain a significant amount of indebtedness to finance our operations. As of December 31, 2008, 2009 and 2010, our total bank loans was RMB5,994.2 million, RMB8,645.5 million and RMB10,713.3 million (US\$1,623.2 million), respectively. We also finance some of our property developments with trust financing. See "Description of Material Indebtedness and Other Obligations — Trust Finance Arrangements." Our gearing ratio, calculated as net borrowings (total bank loans and senior notes net of cash and cash equivalents and restricted cash) divided by total equity, was 50.3%, 48.4% and 47.7% as of December 31, 2008, 2009 and 2010, respectively. Of our total outstanding bank loans of RMB10,713.3 million (US\$1,623.2 million) as of December 31, 2010, RMB2,281.7 million (US\$345.7 million) was repayable within 12 months and RMB8,431.6 million (US\$1,277.5 million) was repayable in more than one year.

Our cash flow and results of operations of our operating subsidiaries will affect our liquidity and our ability to service our indebtedness, including the Notes. We cannot assure you that we will be able to continue to generate and maintain sufficient cash flow to service our indebtedness. If we

are unable to make scheduled payments in connection with our debts and other fixed payment obligations as they become due, we may need to refinance such obligations or obtain additional financing. Furthermore, the Notes and some of our bank loans contain cross default provisions under which default in one such loan could trigger a default on the Notes or one or more of the other bank loans as well. We cannot assure you that we will be able to successfully refinance our existing indebtedness or that we will be able to secure additional financing on acceptable terms, on a timely basis, or at all. If we fail to maintain sufficient cash flow to service our indebtedness or our refinancing efforts are unsuccessful, our liquidity, business, and financial condition will be materially and adversely affected.

In addition to bank loans, we rely on proceeds from the pre-sale of our properties as a major source of funding for our property development activities. If our pre-sales are limited or reduced for any reason, including policy or regulatory changes, a reduction in demand for or in the prices of our properties, or delays in our property development schedule, we could experience cash flow shortfalls and difficulties in funding our property development activities and servicing our indebtedness.

The global economic slowdown, crisis in the global financial markets and volatility of the property prices have negatively impacted, and may continue to negatively impact, our results of operations, business and our ability to obtain necessary financing for our operations

The recent global economic slowdown and turmoil in the global financial markets beginning in the second half of 2008 had a negative impact on the PRC economy, which in turn has affected the PRC property market. For example:

- we experienced a decrease in pre-sales in the second half of 2008 primarily due to the unfavorable property market conditions as a result of the recent global economic slowdown; the economic slowdown and tightened credit conditions resulted in lower demand for residential and commercial properties and declining property prices;
- the economic slowdown adversely impacted home owners and potential property purchasers, which led to a decline in the general demand for property products and an erosion of their selling prices; and
- the tightening of credit negatively impacted the ability of property developers and potential property purchasers to obtain financings.

As a result, revenue from our property development segment and GFA sold decreased in 2008.

Although global economic conditions have improved significantly and certain parts of the PRC property market showed signs of recovery in 2010 due in large part to stimulus measures adopted by the PRC government, we cannot assure you that the property market will continue to recover or that the PRC government will maintain its stimulus measures, nor can we predict as to how long the recent economic slowdown may last and to what extent it may impact us. If the nascent economic recovery fails to continue or if an economic slowdown were to return, the demand for our products, our average selling prices, and the fair value of our properties and investments and our ability to obtain necessary financing for our operations could be materially and adversely affected, which in turn would negatively impact our business, financial condition, results of operations and prospects.

We may be adversely affected by the performance of third-party contractors

We engage third-party contractors to provide various services, including piling and foundation, construction, facilities installation, interior decoration and electromechanical installation. We generally select independent contractors through an open tender process. We cannot assure you that the services rendered by any of these independent contractors or subcontractors will always be satisfactory or meet our quality and safety standards. If the performance of any independent contractor is not satisfactory, we may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of our projects. Further, the completion of our property developments may be delayed, and we may incur additional costs due to a contractor's financial or other difficulties. In addition, we are expanding our business into other regions in China, and there may be a shortage of contractors that meet our quality requirements in such markets. Moreover, contractors may undertake projects for other developers, engage in risky or unsound practices or encounter financial or other difficulties, which may affect their ability to complete their work for us on time or within budget. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

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

As the result of economic growth and the boom in the property industry in the PRC, wages for construction workers and the prices of construction materials have experienced substantial increases in recent years. In addition, the PRC Labor Contract Law (中華人民共和國勞動合同法), that came into effect on January 1, 2008, and its implementing rule enhanced the protection for employees and increased employers' liability which may further increase our labor costs. Under the terms of most of our construction contracts, the construction contractors are responsible for the wages of construction workers and procuring construction materials for our property development and bear the risk of fluctuations in wages and construction material prices during the term of the relevant contract. However, we are exposed to the price volatility of labor and construction materials to the extent that we periodically enter into new or renew existing construction contracts at different terms during the life of a project, which may span over several years, or if we choose to hire the construction workers directly or purchase the construction materials directly from suppliers. Furthermore, we typically pre-sell our properties prior to their completion and we will be unable to pass the increased costs on to purchasers of our properties if the construction costs increase subsequent to the time of such pre-sale. If we are unable to pass on any increase in the cost of labor or construction materials to either our construction contractors or to the purchasers of our properties, our results of operations may be negatively affected. In addition, increased cost of the properties as a result of the increase in the cost of labor or construction materials may reduce our revenue since purchasers may be less willing to purchase our properties.

Disputes with joint venture partners or our project development partners may adversely affect our business

We have developed certain projects jointly with other entities through joint ventures or cooperation agreements. See "Business — Property Development — Financing of Property Developments."

Our joint venture partners or project development partners may:

- have economic or business interests or goals that are inconsistent with ours;

- take actions contrary to our instructions or requests or contrary to our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant joint venture or cooperation agreements; or
- have financial difficulties.

Additionally, a disagreement with any of our joint venture partners or project development partners in connection with the scope or performance of our respective obligations under the project or joint venture or cooperation arrangement could affect our ability to develop or operate a property. Our joint venture partners or project development partners may be unable or unwilling to perform their obligations under the relevant agreements, including their obligation to make required capital contributions and shareholder loans, whether as a result of financial difficulties or otherwise. A serious dispute with our joint venture partners or project development 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 joint venture partners or property development 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 by the relevant joint venture or cooperation agreements. If 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. See “— Risks Relating to Our Business — We may be involved from time to time in disputes, administrative, legal and other proceedings arising out of our operations and may face significant liabilities as a result.”

In the event that we encounter any of the foregoing problems with respect to our joint venture partners or project development partners, our business, financial condition and results of operations may be materially and adversely affected.

Our results of operations may be affected by the performance and reputation of, and any adverse developments relating to, the hotel management partners that manage our hotels and serviced apartments

We have entered into management agreements with Starwood Hotels Group, an internationally renowned hotel management group. Pursuant to these agreements, Starwood Hotels Group will provide hotel and serviced apartment operation and management services to W Guangzhou Hotel, Huadu Sheraton Resort and Four Points by Sheraton Guangzhou, Dongpu. We also intend to engage other international hotel management companies to manage our future hotel developments. See “Business — Hotel Management.” Therefore, our results of operations may be affected by the performance of these hotel management partners, as well as any adverse publicity or other adverse developments that may affect these companies or their brands generally. For example, under the terms of the management agreements with the Starwood Hotels Group, the Starwood Hotels Group will control the daily operations of our hotels and serviced apartments. Although we intend to monitor our hotel management partners’ performance and although we participate in making operating and financial management decisions, we typically do not have the direct authority to require any hotel or serviced apartment to be operated in a particular manner or to influence any particular aspect of the daily operations of any hotel or serviced apartment (for instance, setting room rates or managing personnel). Thus, even if we believe our hotels and serviced apartments are

being operated inefficiently or in a manner that does not result in optimal or satisfactory occupancy rates, operating profit margins or other performance indicators, we may not be able to require the hotel management partners to change the way they manage our hotels and serviced apartments. Any disagreement between our hotel management partners and us in respect of the management of our hotels and serviced apartments and any adverse publicity or other adverse developments that may affect the brand image of the hotel brands held by the hotel management partners in general may adversely affect the performance of our hotels and serviced apartments, and as a result, our results of operations. In addition, in the event that we wish to replace any of our hotel management partners, we may be unable to do so under the terms of our management agreements or we may need to pay substantial termination fees and may experience disruptions at the relevant hotels and serviced apartments. The effectiveness and performance of the hotel management partners in managing our hotels and serviced apartments will, therefore, significantly affect the revenue, expenses and value of our hotels and serviced apartments.

Our objectives may conflict from time to time with the objectives of our hotel management partners, which may adversely impact the operations and results of operations of our hotels and serviced apartments

The hotel management partners that operate our hotels and serviced apartments have no exclusive arrangements with us and own, operate or franchise properties other than our properties, including properties that may compete with our properties. Therefore, our hotel management partners may have interests that differ from or conflict with our own with respect to short-term or long-term goals and objectives. These differences may be significant depending upon many factors, including the remaining term of our management or tenancy agreement, trade area restrictions with respect to competition or differing policies, procedures or practices. Any of these factors may adversely impact the operations and results of operations of our hotels and serviced apartments, which could harm our business, financial condition and results of operations.

The hotel industry is dependant on the levels of business and leisure travel, demand for and supply of hotel rooms and other factors

A number of factors, many of which are common to the hotel industry and are beyond our control, could affect our business, including the following:

- adverse economic conditions;
- dependence on business, commercial and leisure travelers and tourism;
- dependence on meeting and conference business;
- the impact of acts of war or increased tensions between certain countries, increased terrorism threats, terrorist events, impediments to means of transportation (including airline strikes, road closures and border closures), extreme weather conditions, natural disasters, outbreaks of diseases and health concerns, rising fuel costs or other factors that may affect travel patterns and reduce the number of business and leisure travelers;
- adverse effects of international market conditions, which may diminish the demand for first class and luxury leisure travel or the need for business travel, as well as national, regional and local political, economic and market conditions where our hotels operate and where our customers live;

- increased competition and periodic local oversupply of guest accommodation, which may adversely affect occupancy rates and room rates;
- increases in operating costs due to inflation, labor costs (including the impact of unionization), workers' compensation and health-care related costs, utility costs (including energy costs), increased taxes and insurance costs, as well as unanticipated costs such as acts of nature and their consequences and other factors that may not be offset by increased room rates;
- seasonality in travel patterns;
- changes in interest rates and in the availability, cost and terms of debt financing; and
- changes in governmental laws and regulations (including trade restrictions), fiscal policies and zoning ordinances and the related costs of compliance.

These factors could have a material adverse effect on our hotel operations, which in turn will affect our financial condition and results of operations.

We incur significant construction and capital expenditures for development and renovation of investment properties and hotels and certain fixed costs in relation to hotel and rental property operations

Unlike properties developed for sale which can be pre-sold (subject to applicable PRC laws relating to pre-sales) to finance other property developments, our investment properties and hotels require significant upfront capital expenditures but generate no cash inflow until the development has been completed and the hotel operation or the lease with respect to the relevant investment properties commences. In addition, our existing investment properties and hotels, and all of our future investment properties and hotels, will require continuing capital expenditures associated with renovations and other capital improvements, some of which are mandated by health, safety or other regulations or by the hotel management partners. 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 hotels and investment properties, including rental property operating and maintenance expenses, hotel operating and maintenance expenses, taxes, other fees and payments, may be significant. There may not be sufficient and consistent market demand for hotels and rental properties in our target markets. We may be unable to reduce the fixed costs in a timely manner in response to a decline in demand for our hotel services or investment properties for rental, and any failure to adjust our fixed costs may adversely affect our business, financial condition and results of operations. Moreover, our hotels and investment properties may be subject to increases in operating and other expenses due to adverse changes in contractual terms and increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses, which could materially adversely affect our business, financial condition and results of operations.

We may not be able to effectively manage our expansion and growth

While we have historically focused on developing properties in Guangzhou, we have expanded into other cities such as Suzhou, Chengdu, Beijing, Shanghai, Tianjin and Hainan, and intend to further explore other promising markets in China. Our expansion is based on our forward-looking assessment of market prospects. We cannot assure you that our assessments will turn out to be accurate. In addition, to succeed with our business expansion, we will need to recruit and train new

managers and other employees and build our operations and reputation in our target regional markets within a relatively short period of time. We have limited knowledge of the conditions of these local property markets and little or no experience in property development in these regions. As we enter new markets, we may not have the same level of familiarity with contractors, business practices and customs and customer tastes, behavior and preferences as compared to the cities where we are an established property developer. In addition, when we enter new geographical areas, we may face intense competition from developers with an established presence and market share in those areas. Therefore, we cannot assure you that we can successfully execute our contemplated expansion plan or that we will succeed in effectively integrating our expanded operations, or that our expanded operations will generate adequate returns on our investments or positive operating cash flows. Furthermore, our business expansion may place a substantial strain on our managerial and financial resources. Any failure in effectively managing our expanded operations may materially and adversely affect our business, prospects, results of operations and financial condition.

We may not be successful in leveraging our past experience in residential property development to expand to our new hotel, serviced apartments, and investment property businesses

We are entering into hotel, serviced apartments, and investment property businesses, namely the development and management of office buildings, serviced apartments and hotels. We completed our first office building, the International Finance Place, in 2007. In September 2009, we opened our Four Points by Sheraton Guangzhou, Dongpu, located in Tianhe Dongpu, Guangzhou and are currently developing two high-end star-rated hotels in Guangzhou, namely, W Guangzhou Hotel and Sheraton Huadu Resort, and one serviced apartment. In addition, we are planning to develop six other high-end star-rated hotels and six high-end shopping malls located in various cities including Guangzhou, Suzhou, Chengdu and Hainan. However, our experience as a residential property developer may not be applicable to the development of these types of investment properties. We cannot assure you that we will be able to leverage our past experience to face the challenges in these new investment property businesses. We rely and will continue to rely on third-party property management companies to conduct the daily operation of these serviced apartments and hotels. If their performance is not satisfactory to our guests or tenants, the occupancy rate and/or rental value for our hotels and serviced apartments may decrease, and thus adversely affect our results of operations and our reputation. We also may not be able to reduce the costs associated with the management of hotels and serviced apartments in a timely manner in response to changes in demand for those properties. Furthermore, the performance of our investment properties is subject to various factors beyond our control, such as the economic conditions and the level of business activities, business travel and tourism in the region. There may not be sufficient and consistent market demand for high-end hotels, serviced apartments, and office space in Guangzhou and our other target markets in the PRC, and, as a result, our results of operations in these new segments may not be profitable or generate recurring income or cashflow as we expect, and could even operate at a loss.

The fair value of our investment properties is likely to fluctuate from time to time and may decrease significantly in the future, which may materially and adversely impact our results of operations

We are required to reassess the fair value of our investment properties as of each balance sheet date. In accordance with HKFRS, gains or losses arising from changes in the fair value of our investment properties should be accounted for in our statements of comprehensive income in the period in which they arise. Our investment properties were revalued by an independent property valuer as of December 31, 2008, 2009 and 2010, respectively, on an open market for existing use basis which reflected market conditions at those dates. Based on such valuation, we recognized the aggregate fair market value of our investment properties on our consolidated statements of financial

position, and recognized changes in fair values of investment properties and the relevant deferred tax on our consolidated statements of comprehensive income. In 2008, 2009 and 2010, the fair value gains (losses) on our investment properties, net of deferred tax, were RMB(17.7) million, RMB45.5 million and RMB2.9 million (US\$0.4 million), respectively, and accounted for approximately (4.8)%, 6.3% and 0.2%, respectively, of our profit for the respective years.

Fair value gains or losses do not, however, change our cash position as long as the relevant investment properties are held by us, and accordingly do not increase our liquidity in spite of the increased profit represented by any fair value gains. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. Macroeconomic factors, including economic growth rate, interest rate, inflation rate, urbanization rate and disposable income level, in addition to any government regulations, can substantially affect the fair value of our investment properties and affect the supply and demand in the PRC property market. We recorded fair value losses on investment properties of approximately RMB23.6 million in 2008. All these factors are beyond our control and we cannot assure you that changes in market conditions will continue to create fair value gains on our investment properties at the historical levels, or at all, or that the fair value of our investment properties will not decrease in the future. If the fair value of our investment properties declines, our profitability could be materially and adversely affected.

We have mortgaged certain properties and pledged shares in certain subsidiaries to secure our borrowings

We have mortgaged certain of our properties and pledge shares in certain subsidiaries to secure some of our general banking facilities. If we default on such banking facilities, the lenders may foreclose such properties we mortgage and shares in subsidiaries we pledge. Although the terms of our indebtedness limits our ability to do so, we cannot assure you that we will not mortgage our properties or pledge shares in subsidiaries to secure our borrowings in the future. Nor can we assure you that we will not default on any of our borrowings in the future.

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

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

As of December 31, 2008, 2009 and 2010, our outstanding guarantees for the mortgage loans of our customers amounted to RMB1,624.9 million, RMB4,067.1 million and RMB6,160.6 million (US\$933.4 million), respectively. However, if any material default by our customers occurs on such loans, we may be required to honor our guarantees and our results of operations and financial position may be materially and adversely affected.

We may suffer certain losses not covered by insurance

We do not carry comprehensive insurance against all potential losses or damages with respect to our properties before their delivery to customers nor do we maintain insurance coverage against liability from tortious acts, property damage or personal injury relating to the construction and maintenance of our properties. Although we expect our third-party construction companies to maintain appropriate insurance coverage, we cannot assure you that their insurance would cover or be sufficient to satisfy all claims, or that we would not be sued or held liable for damages notwithstanding their insurance coverage. Moreover, there are certain losses for which insurance is not available on commercially practicable terms in China, such as losses suffered due to earthquake, typhoon, flooding, war and civil disorder. If we suffer from any losses, damages or liabilities in the course of our business, we may not have sufficient financial resources to cover such losses, damages or liabilities or to satisfy our related obligations. Any payment we make to cover any losses, damages or liabilities may have a material and adverse effect on our business, results of operations and financial condition.

We may not be able to complete our development projects according to schedule or on budget

A property development project requires substantial capital expenditures prior to and during the construction period, and it may take over a year before a development generates positive cash flow through pre-sales or sales. The progress of, and costs for, a development project can be adversely affected by many factors, including:

- changes in market conditions, an economic downturn or a decline in consumer confidence;
- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- relocation of existing residents and demolition of existing structures;
- increases in the market prices of raw materials if we cannot pass on the increased costs to customers;
- shortages of materials, equipment, contractors and skilled labor;
- latent soil or subsurface conditions and latent environmental damage requiring remediation;
- unforeseen engineering, design, environmental or geographic problems;
- labor disputes;
- construction accidents;
- natural disasters;
- adverse weather conditions;
- changes in government practices and policies, including reclamation of land for public works or facilities; and

- other unforeseen problems or circumstances.

Our property projects are at risk from earthquakes, floods and other natural disasters in the regions where we operate. Damage to any of our properties or impact on the markets, whether by natural disasters or otherwise, may either delay or preclude our ability to develop and sell our properties or adversely affect our budget for the projects. We cannot assure you that we will not experience significant delays in completion or delivery of our projects or subject to liability for any such delays. Construction delays or failure to complete construction of a project according to its planned specifications, schedule or budget may materially and adversely affect our reputation, business, results of operations and financial condition.

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

Changes in interest rates have affected and will continue to affect our financing costs and, ultimately, our results of operations. In April 2006, the PBOC raised the benchmark one-year lending rate from 5.58% to 5.85% and in August 2006 further increased such rate to 6.12%. The PBOC again increased the one-year lending rate six times in 2007 from 6.12% to 7.47% in December 2007. Beginning in 2008, the PBOC decreased the benchmark one-year lending rate five times, from 7.47% to 5.31% in December 2008, which remained unchanged until September 2010. The one-year lending rate increased to 5.81% as of December 31, 2010 and increased to 6.06% effective from February 9, 2011. As commercial banks in China link the interest rates on their loans to benchmark lending rates published by the PBOC, any further increase in such benchmark lending rates will increase the interest costs for our developments.

A substantial portion of the interest expense has been capitalized as properties under development, which will then be recognized in the consolidated statements of comprehensive income as cost of sales upon the sale of properties. As a result, such capitalized interest expense may adversely affect our gross profit margin upon the sales of properties in future.

In addition, increases in interest rates may affect our customers' ability to secure mortgages on acceptable terms, which in turn may affect their ability to purchase our properties.

We may have to compensate our customers if we fail to meet all requirements for the delivery of completed properties and the issuance of property ownership certificates

According to the relevant PRC law, property developers must meet various requirements as stated below within 90 days after the delivery of property or such other time period that may be provided in the relevant sales and purchase agreement to assist a purchaser in obtaining the individual property ownership certificate. We generally elect to specify the deadline to apply for an individual property ownership certificate in the sales and purchase agreement to allow sufficient time for the application and approval process. Within three months of the date of the completion certificate for a development, we must apply for a general property ownership certificate for the entire development. This involves, among other things, the submission of a number of documents, including land use rights documents, planning approvals and construction permits. Following the effective date of a sales and purchase agreement for one or more units in a development, we then assist the purchaser to apply for an individual property ownership certificate for each unit. This involves submission of other documents, including the sales and purchase agreement, identification documentation for the purchaser, evidence of payment of deed tax and a copy of the general property ownership certificate issued to us. Delay by a purchaser in providing the documents relating to the purchaser, or delay by the various administrative authorities in reviewing the relevant application document, as well as other factors beyond our control, may affect timely delivery of the

relevant individual property ownership certificate. Under current PRC laws and regulations and under our sales and purchase agreements, we are required to compensate our customers for delays in delivery caused by us of individual property ownership certificates. We cannot assure you that delays in delivery caused by us of the required property ownership certificates will not occur. Significant delays with respect to one or more of our developments may materially and adversely affect our reputation, business, results of operations and financial condition.

The PRC government may impose fines on us or take back our land if we fail to develop a property according to the terms of the land grant contract

Under PRC laws and regulations, if we fail to develop a property according to the terms of the land grant contract, including terms relating to the payment of land premium, demolition and resettlement costs and other fees, the specified use of the land and the time for commencement and completion of the development, the PRC government may issue a warning, impose a penalty, and/or take back our land. Under current PRC laws and regulations, if we fail to pay any outstanding land grant premium on time, we may be subject to a late payment penalty for every day of delay in payment. In addition, the PRC government may impose an idle land fee equal to 20% of the land premium or allocation fees if (i) we do not commence construction for more than one year after the date specified in the relevant land grant contract, (ii) total constructed GFA is less than one-third of the total proposed GFA for the development, or (iii) the capital invested in the development is less than one-fourth of the total investment approved for the development and the development is suspended for more than one year without governmental approval. Furthermore, the PRC government has the authority to take back the land without compensation to us, if we do not commence construction for more than two years after the date specified in the land grant contract, unless the delay is caused by force majeure or governmental action. In the Notice on Promoting the Saving and Intensification of Use of Land (國務院關於促進集約節約用地的通知) promulgated by the State Council on January 3, 2008, this policy was reinforced. This notice states, among other things, that the Ministry of Land and Resources and other authorities are required to research and commence the drafting of implementation rules concerning the levy of land appreciation fees on idle land. Furthermore, the Ministry of Land and Resources issued a Notice on Restricting the Administration of Construction Land and Promoting the Use of Approved Land (關於嚴格建設用地管理促進批而未用土地利用的通知) in August 2009, which reiterates the current rules on idle land.

As of December 31, 2010, we delayed in making the payment of land premium for certain parcels of land related to Guangzhou Cosmos and The Sapphire. In relation to the land for Guangzhou Cosmos, the local government imposed a penalty fine in the amount of RMB223,125.0 (US\$33,806.8) on us due to the delay in payment for land premium. In relation to the land for The Sapphire, we had paid land premium of RMB1,058.6 million (US\$106.4 million) and had obtained land use rights of approximately 261,672 sq.m. We delayed in the payment of the outstanding amount of RMB206.4 million (US\$31.3 million) according to the time stipulated in the relevant land grant contract. We cannot assure you that we will not be subject to a late payment penalty, nor can we assure you that the local government will not terminate the contracts and confiscate the land in the future. In addition, as of December 31, 2010, we had six parcels of land related to Chengdu Cosmos, Lingshui Project, Fragrant Seasons and Suzhou Apex with a total site area of 1,068,868 sq.m. that we had not commenced development within the time stipulated in the relevant land grant contracts. We cannot assure you that there will be no significant delays in the commencement of construction or the development of our properties in the future, or that our developments will not be subject to idle land penalties or be taken back by the government as a result of such delays. The imposition of substantial idle land penalties could have a material and adverse affect on our business, results of operations and financial condition. If any of our land is taken back by the

government, we would not only lose the opportunity to develop the property, but we would also lose our prior investments in the development, including land premiums paid and costs incurred prior to the date in connection with such land.

Our acquisition of companies holding land use rights may be unsuccessful and our acquisition agreements may not provide us with sufficient protection against potential liability

We intend to continue to acquire the controlling equity interests in companies holding land use rights as a means of expanding our business and land bank. However, we may face strong competition during the acquisition process and we may not be successful in selecting or valuing target companies or their land appropriately. As a result, we may be unable to complete such acquisitions at reasonable cost, or at all. In addition, we may have to allocate additional capital and human resources to integrate the acquired business into our operations. We also cannot assure you that the integration of any acquired company will be successfully completed within a reasonable period of time, or at all, or that it will generate the economic benefit that we expected.

Our success depends on the continued services of our senior management team

Our future success depends heavily upon the continuing services of our executive directors and members of our senior management team, in particular, our Chairman, Kong Jian Min. Many members of our senior management team have more than 10 years of property development experience in the PRC. If one or more of our senior executives or other personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. Moreover, along with our steady growth and expansion into other regional markets in China, we will need to employ, train and retain additional suitable skilled and qualified management and employees from a wider geographical area. If we cannot attract and retain suitable personnel, our business and future growth may be materially and adversely affected.

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

We engage our own or third-party property management companies on behalf of our purchasers to manage the residential properties we developed. We believe that property management is an important part of our business strategy and is critical to the successful marketing and promotion of our property developments. Under PRC laws and regulations, a majority of property owners of a residential community of certain size have the right to change the property management service provider. In 2008, 2009 and 2010, the revenue derived from our property management services was RMB28.5 million, RMB47.9 million and RMB63.7 million (US\$9.7 million), respectively. If the owners of a residential property that we have developed, however, choose to terminate our property management services, or our customers are unsatisfied with our property management services, our reputation may be materially and adversely affected.

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

We may be involved in disputes with various parties involved in the construction, development and the sale of our properties, including contractors, suppliers, construction workers, original owners and residents, partners and purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to our reputation, incurrence of substantial costs and the 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 relevant project is perceived to be inconsistent with our representations and warranties made to such earlier purchasers. These disputes and legal and other proceedings may materially and adversely affect our reputation, business, results of operations and financial condition. See “Business — Legal Proceedings” in this offering memorandum.

In addition, we may have compliance issues 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. If we fail to comply with any applicable PRC laws or regulations, our reputation and our business, results of operations and financial condition may be materially and adversely affected.

We are subject to legal and business risks and our business may be adversely affected if we fail to obtain or maintain the required qualification certificates and other requisite government approvals

A PRC property developer must hold a valid qualification certificate to develop property. In addition, at various stages of project development, the PRC property developer must also obtain various licenses, certificates, permits, and approvals from the relevant PRC administrative authorities, including land use rights certificates, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion.

According to the Provisions on Administration of Qualifications of Real Estate Developers (房地產開發企業資質管理規定) issued by the Ministry of Construction, a newly established property developer must first apply for a provisional qualification certificate with a one-year validity, which can be renewed annually for not more than two consecutive years. If, however, the newly established property developer fails to commence a property development project within the one-year period following the provisional qualification certificate, it will not be allowed to extend the term of its provisional qualification certificate. Developers with longer operating histories must submit their qualification certificates to relevant construction administration authorities for review annually. Government regulations require developers to fulfill all statutory requirements before they may obtain or renew their qualification certificates.

We conduct our property developments through project companies. These project companies must hold valid qualification certificates to be able to conduct their businesses. As of December 31, 2010, 14 of our PRC subsidiaries had not obtained qualification certificates because they did not conduct any property development activities, two of our PRC subsidiaries were in the process of renewing their qualification certificates and 11 of our PRC subsidiaries were in the process of applying for qualification certificates. We cannot assure you that our project companies will continue to be able to obtain or renew the necessary qualification certificates in a timely manner, or at all. If any of our project companies does not obtain or renew the necessary qualification certificate in a timely manner, or at all, our prospects, and our business, results of operations and financial condition may be materially and adversely affected.

Pursuant to the Measures for the Administration of Qualifications of Property Service Enterprises (物業服務企業資質管理辦法), entities engaged in property management are required to obtain qualification certificates before they commence their business operations. Our wholly-owned property management subsidiaries are primarily engaged in the management of the residential and commercial properties we developed. If any property management companies are unable to meet the relevant requirements and therefore unable to obtain or maintain the qualification certificates, our business and financial condition could be materially and adversely affected. As of December 31, 2010, Guangzhou Kangrui Property Service and Guangzhou Junzhao Property Operation had not

obtained qualification certificates. Neither of these companies currently conducts property service activities. Guangzhou Fuxin Property Management Co., Ltd. is in the process of renewing its qualification certificate.

In addition to the above, we cannot assure you that we will not encounter significant problems in satisfying the conditions to, or delays in, the issuance of other necessary licenses, certificates, permits or approvals. As of December 31, 2010, the following project companies had not fully paid their registered capital: Guangzhou Weibai Real Estate Development (which is in the process of reducing its registered capital), Chengdu Premium Property Development Company Limited, Guangzhou Fujing Real Estate Development Co., Ltd., Hainan New World Property Development (HK) Co., Ltd. and six project companies in Foshan. There may also be delays on the part of the administrative bodies in reviewing and processing our applications and granting licenses, certificates, permits or approvals. If we fail to obtain the necessary governmental licenses, certificates, permits or approvals for any of our major property projects, or a delay occurs in the government's examination and review process, our development schedule and our sales could be substantially delayed, resulting in a material and adverse effect on our business, results of operations and financial condition.

The value of our properties may be affected if the current ancillary facilities in the vicinity of our residential communities cease to provide services to the owners or users of our properties

The ancillary facilities (e.g., schools, hospitals, public parks) in the vicinity of our residential communities enhance the value of our properties by improving the overall quality and value of the surrounding areas, thereby offering a better living environment to our property owners and users. However, we do not operate nor manage some of the ancillary facilities. We cannot assure you that these facilities will continue to operate and provide services in our residential communities. In the event that some or all of these facilities cease to operate in our residential communities, our properties may become less attractive and less valuable.

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

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

Increase in resettlement costs or similar costs associated with certain property developments may materially and adversely affect our business, financial condition and results of operations

Land parcels acquired by property developers for future development may have existing buildings or other structures or may be occupied by third parties. Where land is obtained from the PRC government, resettlement or similar costs are usually included in the land premium payable. Government authorities are required to enter into written agreements with the owners of properties subject to demolition and to provide compensation for their relocation and resettlement costs. The compensation payable by government authorities cannot be lower than the market value of similar properties at the time of expropriation. If the compensation paid by government authorities

increases significantly due to increases in property market prices, the land premiums payable by us may be subject to substantial increases, which could adversely affect our business, results of operations and financial condition. In addition, any delay or difficulty in the resettlement process may cause a delay in the delivery of land to us, in whole or in part, and may require an increase in the fees payable in connection with the resettlement process. In addition, if a local government fails to reach an agreement over compensation with the owners or residents of the buildings subject to demolition, it may unilaterally decide on a compensation plan for such owners or residents, but the owners or residents have the right to file for administrative review with relevant government authorities or initiate lawsuits, which may delay a project's timetable. Such delays may lead to an increase in cost and a delay in the expected cash inflow resulting from pre-sales of the relevant projects. If we experience an increase in resettlement costs or experience delay due to our inability to reach a resettlement agreement, our business, financial condition and results of operations may be materially and adversely affected.

Risks Relating to the Real Estate Industry in China

The PRC government may adopt further measures to slow down growth in the property sector

Along with the economic growth in China, investments in the property sectors have increased significantly in the past few years. In response to concerns over the increase in property investments, from 2004 to February 2011, the PRC government introduced various policies and measures to curtail property developments, including:

- requiring real estate developers to finance, with their internal resources, at least 35% of the total investment (excluding affordable housing projects);
- limiting the monthly mortgage payment to 50% of an individual borrower's monthly income and limiting all monthly debt service payments of an individual borrower to 55% of his or her monthly income;
- suspending land supply for villa construction and restricting land supply for high-end residential property construction;
- requiring that at least 70% of the land supply approved by any local government for residential property development during any given year must be used for developing low- to medium-cost and small- to medium-size units for sale or as low-cost rental properties;
- requiring that at least 70% of the total development and construction area of residential projects approved or constructed on or after June 1, 2006 in any administrative jurisdiction must consist of units with a unit floor area of less than 90 sq.m. 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 comply with this new requirement, with the exception that municipalities under direct administration of the PRC central government and provincial capitals and certain cities may deviate from such ratio under special circumstances upon approval from the PRC Ministry of Construction (中華人民共和國建設部) and currently known as PRC Ministry of Housing and Urban-Rural Development (中華人民共和國住房和城鄉建設部), or the Ministry of Construction;

- requiring any first-time home owner using housing reserves (住房公積金) to pay the minimum amount of down-payment at 20% of the purchase price of the underlying property if the underlying property has a unit floor area of less than 90 sq.m. and the purchaser is buying the property as a primary residence, or 30% of the purchase price if the underlying property has a unit floor area of larger than 90 sq.m.;
- requiring any second-time home buyer to pay an increased minimum amount of down-payment at 60% of the purchase price of the underlying property and an increased minimum mortgage loan interest rate at 110% of the relevant PBOC benchmark one-year bank lending interest rate;
- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down-payment to 50% of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark one-year bank lending interest rate, and (iv) limiting the terms of such bank borrowings to no more than 10 years, with commercial banks allowed flexibility based on their risk assessment;
- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down-payment to 45% of the purchase price of the underlying property, with the other terms similar to those for commercial properties;
- limiting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- imposing more restrictions on the types of property developments that foreign investments may engage in;
- imposing or increasing taxes on short-term gains from second-hand property sales;
- restricting foreign investment in the property sector by, among other things, increasing registered capital and other requirements for establishing foreign-invested real estate enterprises, tightening foreign exchange control and imposing restrictions on purchases of properties in China by foreign persons;
- requiring commercial banks to suspend mortgage loans to customers for purchase of a third or further residential property, or to non-residents who cannot provide proof of local tax or social security insurance payments for more than a one-year period;
- raising the benchmark one-year bank lending rate published by PBOC for the year ended December 31, 2010 to 5.81% and to 6.06% in February 2011;
- on January 14, 2011, raising the PBOC Renminbi deposit reserve ratio by 0.5% again for all PRC deposit-taking financial institutions, effective on January 20, 2011, resulting in deposit reserve ratios ranging from 15.5% to 19.0%; and
- on February 18, 2011, further raising the PBOC reserve requirement ratio by 0.5% for all PRC deposit-taking financial institutions, which ranges from 16.0% to 19.5%, effective on February 24, 2011.

- on March 18, 2011, further raising the PBOC reserve requirement ratio by 0.5% for all PRC deposit-taking financial institutions, which ranges from 16.5% to 20%, effective on March 25, 2011.

Beginning in the second half of 2008, in order to mitigate the impact of the global economic slowdown, the PRC government has adopted measures to encourage domestic consumption in the residential property market and support property development. However, in December 2009 and January 2010, the PRC government adjusted some policies in order to enhance the regulation of the property market, restrain property purchases for investment or speculation purposes and keep property prices from rising too quickly in certain regions and cities. At the same time, the PRC government abolished certain preferential treatments relating to business taxes payable upon transfers of residential properties by property owners and imposed more stringent requirements on the payment of land premium by property developers. In addition, in April 2010, the PRC government identified certain policy measures to increase down payment for properties purchased with mortgage loans. In January 2011, the PRC government adopted certain new policies to cool down the real estate property market, including increasing the minimum down payment to at least 60% of the total purchase price for second-house purchases with a minimum mortgage lending interest rate at least 1.1 times the benchmark rate, in certain targeted cities restricting purchasers from acquiring second (or further) residential properties and restricting non-residents that cannot provide any proof of local tax or social security payments for more than a specified time period from purchasing any residential properties, imposing property tax in certain cities and levying business tax on the full amount of transfer price if an individual owner transfers a residential property within five years of purchase. In addition, certain cities including Guangzhou, Tianjin, Beijing, Shanghai, Suzhou, Qingdao, Chengdu, Foshan and Jinan, have promulgated measures further limiting the number of residential properties one family is allowed to purchase. For a more detailed description of the PRC government's measures to curtail the overheating of the PRC property market, see the section entitled "Regulations — The Land System of the PRC — National Legislation." These measures may limit our access to capital resources, reduce market demand for our products and increase our operating costs in complying with these measures. We cannot assure you that the PRC government will not adopt additional and more stringent measures, which could further slow down property development in China. 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 or cause us to incur additional costs, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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

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

have become more active. If as a result of any one or more of these or similar factors, demand for residential property or market prices decline significantly, our business, results of operations and financial condition may be materially and adversely affected.

Increasing competition in the property industry in China, particularly in Guangzhou and other cities where we operate may adversely affect our business and financial condition

We face competition from a number of property developers. Our existing and potential competitors include private and public developers in the PRC, as well as developers from Hong Kong. Some of them may have greater marketing, financial, technical or other resources than us and greater economies of scale, broader name recognition and more established relationships in the market. In recent years, a large number of property developers have undertaken property development and investment projects, particularly in Guangzhou and other cities where we operate. Competition among property developers may cause increases in land premiums and raw material costs, shortages in quality construction contractors, surpluses in property supply leading to decreased property prices, delays in the issuance of government approvals and permits, and higher costs to attract or retain talented employees.

In addition, the property markets in Guangzhou and elsewhere in the PRC are rapidly changing. Macro-economic measures have recently been adopted by the PRC government in an attempt to slow the rapid growth of the PRC's economy and deter investment in fixed assets, including real estate assets. If we cannot respond to changes in market conditions in Guangzhou or elsewhere, or changes in customer preferences more swiftly or more effectively than our competitors, our business, results of operations and financial condition could be adversely affected.

We are exposed to pre-sale related contractual, legal and regulatory risks

We depend on cash flows from pre-sales of properties as an important source of funding for our property developments. We face risks relating to the pre-sale of properties. For example, we may find ourselves liable to the purchasers for their losses, if we pre-sell units in a property development and fail to complete that development. If we fail to complete a pre-sold property on time, our purchasers may claim compensation for late delivery pursuant to either their contracts with us or relevant PRC laws and regulations. If our delay extends beyond a specified period, our purchasers may terminate their pre-sale contracts and claim for compensation. A purchaser may also terminate his or her contract with us if the GFA of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3% from the GFA of that unit set out in his or her contract. We cannot assure you that we will not experience delays in the completion and delivery of our projects, nor that the GFA for a delivered unit will not deviate more than 3% from the GFA set out in the relevant contract. Any termination of the purchase contract as a result of our late delivery of properties will have a material adverse effect on our business, financial condition and results of operations.

Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sales of the relevant properties and pre-sales proceeds may only be used to finance the related development. Various PRC authorities and regulators have publicly called for the discontinuance or abolishment of pre-sales, or to impose tighter regulations on such practice. We cannot assure you 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 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.

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

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

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

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

Substantially all of the purchasers of our properties rely on mortgages to finance their purchases. An increase in interest rates may significantly increase the cost of mortgage financing and affect the affordability of residential properties. In addition, the PRC government and commercial banks may also increase the down payment requirement, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers.

The PRC government has enacted various laws and regulations governing terms of mortgage financing for our customers, including minimum down payment requirements, minimum mortgage loan interest rates, limitations on pre-sales, maximum mortgage term lengths, the suspension of mortgage loans to certain investors, and limits on how many houses a household can buy. See “Regulations — The Land System of the PRC — Real Estate Loans.” If the availability or attractiveness of mortgage financing is further 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.

In line with industry practice, we provide guarantees to banks for mortgages they offer to our purchasers up until we complete the relevant property and the individual property ownership certificates with respect to the relevant properties are issued to our purchasers and the mortgage registrations for the relevant properties have been completed. If there are changes in laws,

regulations, policies and practices that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and the banks would not accept any alternative guarantees by third parties, or if no third party is available or willing in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks and other financial institutions during sales and pre-sales of our properties. Such difficulties in financing could result in a substantially lower rate of sale and pre-sale of our properties, which would materially and adversely affect our cash flow, financial condition and results of operations.

Potential liability for environmental damages could result in substantial cost increases

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

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

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

Risks Relating to China

PRC economic, political and social conditions, as well as governmental policies, could affect our business and prospects

The PRC economy differs from the economies of most of the developed countries in many aspects, including:

- the amount and degree of the PRC government involvement;
- growth rate and degree of development;

- uniformity in the implementation and enforcement of laws;
- content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. We cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy that the government believed to be overheating, including the real estate industry. These measures have included restricting foreign investment in certain sectors of the real estate industry, raising benchmark interest rates of commercial banks, reducing currency supply and placing additional limitations on the ability of commercial banks to make loans by raising bank reserves against deposits and raising the thresholds and minimum loan interest rates for residential mortgages. These actions, as well as future actions and policies of the PRC government, could cause a decrease in the overall level of economic activity, and in turn have a material and adverse impact on our business and financial condition.

Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations

The PRC government imposes controls on the convertibility between Renminbi and foreign currencies and the remittance of foreign exchange out of China. We receive substantially all our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Our PRC subsidiaries must convert their Renminbi earnings into foreign currency before they may pay cash dividends to us or service their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from PRC State Administration of Foreign Exchange (中華人民共和國國家外匯管理局), or SAFE, by complying with certain procedural requirements.

However, approval from appropriate governmental authorities is required when Renminbi is converted into foreign currencies and remitted out of China for capital-account transactions, such as the repatriation of equity investment in China and the repayment of the principal of loans or debt denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect our ability to finance our PRC subsidiaries. Subsequent to this offering, we have the choice, as permitted by the PRC foreign investment regulations, to invest our net proceeds from this offering in the form of registered capital or a shareholder loan into our PRC subsidiaries to finance our operations in China. Our choice of investment is affected by the relevant PRC

regulations with respect to capital- account and current-account foreign exchange transactions in China. Our investment decisions are additionally affected by various other measures taken by the PRC government relating to the PRC property market as we have disclosed in the section entitled “Industry Overview — PRC Property Markets — Measures affecting the PRC property market.” In addition, our transfer of funds to our subsidiaries in China is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by our PRC subsidiaries permit any such shareholder loans at all. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries

The value of Renminbi depends, to a large extent, on domestic and international economic, financial and political developments and China’s governmental policies, as well as supply and demand in the local and international markets. From 1999 until 2005, the conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, was based on exchange rates set and published daily by the PBOC in light of the previous day’s inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of Renminbi into the U.S. dollar was largely stable until July 2005. On July 21, 2005, the PBOC revalued Renminbi by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of Renminbi appreciated by more than 2% on that day. Since then, the PBOC has allowed the official Renminbi exchange rate to float against a basket of foreign currencies. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On June 19, 2010, the PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase the Chinese currency’s exchange rate flexibility. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 24% from July 21, 2005 to November 30, 2010. The Renminbi exchange rate could fluctuate widely against the U.S. dollar or any other foreign currency in the future. Since our income and profits are denominated in Renminbi, any appreciation of Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Fluctuation of the value of Renminbi will also affect the amount of our foreign debt service in Renminbi terms since we have to convert Renminbi into foreign currencies to service our indebtedness in foreign currency. We currently do not hedge against our foreign exchange rate risk.

Our income tax obligations may increase, dividends from our PRC subsidiaries may be subject to withholding tax under PRC tax laws and we may be subject to PRC tax under the New Tax Law

In March 2007, the National People’s Congress of the PRC and its Standing Committee (the “NPC” or the “National People’s Congress”) enacted the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “New Tax Law”), which took effect on January 1, 2008. The New Tax Law imposes a unified income tax rate of 25% on all domestic and foreign-invested enterprises unless they qualify under certain limited exceptions. According to the New Tax Law,

enterprises incorporated prior to March 16, 2007 that are subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after January 1, 2008.

We are a holding company that is financially dependent on distributions from our subsidiaries and our business operations are principally conducted through our PRC subsidiaries. Prior to December 31, 2007, dividend payments to foreign investors made by foreign-invested enterprises, such as dividends paid to us by our PRC subsidiaries, were exempt from PRC withholding tax. The New Tax Law and the Regulations for Implementation of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (together with the New Tax Law, the “New Tax Laws”), effective January 1, 2008, provide that any dividend payment to foreign investors will be subject to a withholding tax at a rate of 10%. Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% interest in that subsidiary. However, according to a Circular of the PRC State Administration of Taxation dated October 27, 2009, tax treaty benefits will be denied to “conduit” or shell companies without business substance. Therefore, it is unclear whether dividend payments made by our PRC subsidiaries to our Hong Kong subsidiaries, which hold the equity interests in our PRC subsidiaries, will continue to enjoy the 5% PRC tax rate.

In addition, under the New Tax Laws, enterprises established under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The New Tax Laws provide that “de facto management body” of an enterprise is the organization that exercises substantial and overall management and control over the production, employees, books of accounts and properties of the enterprise. If a majority of the members of our management team continue to be located in China, we may be considered a PRC resident enterprise and therefore subject to PRC enterprise income tax at the rate of 25% on our worldwide income. If we or any of our non-PRC subsidiaries otherwise is a PRC resident enterprise under the New Tax Laws, our profitability and cash flow would be materially and adversely affected. Although it is unclear under PRC tax law whether we have a “de facto management body” located in China for PRC tax purposes, we currently intend to take the position that we are not a PRC resident enterprise, but there can be no assurance that the PRC tax authorities will accept our position.

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

Under the New Tax Laws, if our Company were determined to be a PRC resident enterprise, the interest payable on the Notes will be considered to be sourced within China. In that case, PRC income tax at the rate of 10% will be withheld from interest payable on the Notes to investors that are “non-resident enterprises” so long as such “non-resident enterprise” investors do not have an establishment or place of business in China or, if despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realized on the transfer of the Notes by such investors will be subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. It is uncertain whether we will be considered a PRC “resident enterprise,” and whether the interest payable to our foreign investors, or the gain our foreign investors may realize from the transfer of our Notes, would be treated as income sourced within China and be subject to PRC tax.

We currently do not intend to withhold taxes from interest payments, but there can be no assurance that the PRC income tax authorities will accept our withholding position. If we are required under the New Tax Laws to withhold PRC income tax on our interest payable to our non-resident noteholders who are “non-resident enterprises,” we will be required, subject to certain exceptions based on the applicable tax treaty, to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition, if you are required to pay PRC income tax on the transfer of our Notes, the value of your investment in our Notes may be materially and adversely affected. Prospective holders should consult their tax advisers as to whether they may be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas if we are considered a PRC “resident enterprise.”

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

In the event we are treated as a PRC “resident enterprise” under the New Tax Laws, we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay additional amounts with respect to such withholding tax. In addition, as described under “Description of the Notes — Redemption for Taxation Reasons,” in the event we are required to pay additional amounts as a result of certain changes in tax law, including changes in existing official position or the stating of an official position that results in our being required to withhold tax due to our being treated as a PRC “resident enterprise,” we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations

In October 2005, the SAFE issued the Notice Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) which became effective on November 1, 2005. The notice requires PRC residents, including both legal and natural persons, to register with the local SAFE branch before establishing or controlling any company outside of China (an “offshore special purpose company”) for the purpose of acquiring any assets of or equity interest in a PRC company and raising funds offshore. In addition, any PRC resident who is the shareholder of an offshore special purpose company is required to update its SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in the PRC. Failure to comply with the required SAFE registration and updating requirements described above may result in restrictions being imposed on the foreign exchange activities of the PRC subsidiaries of that offshore special purpose company, including the increase in registered capital, the payment of dividends and other distributions or payments to the offshore special purpose company and capital inflows from the offshore entity. Failure to comply may also subject relevant PRC residents or the PRC subsidiaries of that offshore special purpose company to penalties under PRC foreign exchange administration regulations for evasion of applicable foreign exchange restrictions.

If the SAFE promulgates clarifications or regulations in the future requiring our beneficial owners who are Hong Kong permanent residents to comply with the registration procedures and update requirements described above and if our beneficial owners are unable or fail to comply with such procedures, our beneficial owners may be subject to fines and legal sanctions and our business operations may also be materially and adversely affected, particularly with respect to the ability of our Chinese subsidiaries to remit foreign currency payments out of China, which could affect an ability to service our offshore indebtedness (including the Notes).

Interpretation of the PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you

Our core business is conducted in China and is governed by PRC laws and regulations. Our principal operating subsidiaries are located in China and are subject to the PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have limited precedential value and can only be used as a reference. Additionally, PRC written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, because these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty and the legal protection available to you may be limited. Depending on the governmental agency or the presentation of an application or case to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under our permits, and other statutory and contractual rights and interests.

The national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. We have three projects located in Chengdu, approximately 92 kilometers from the earthquake's epicenter in Wenchuan County, Sichuan Province. Based on our investigation and site inspections, our properties in Sichuan Province did not suffer any material damage or loss as a result of the earthquake. However, earthquakes with such magnitude may adversely affect our ability to complete and sell or lease our properties as scheduled or cause material damage or loss to our properties. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as the H5N1 avian flu or the human swine flu, especially in the cities where we have operations, may result in material disruptions to our property development and our sales and marketing, which in turn may adversely affect our financial condition and results of operations.

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

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

Risks Relating to the Notes

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

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries. Moreover, the Notes will not be guaranteed by certain other Non-Guarantor Subsidiaries. Our primary assets are loans to and ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors and certain Non-Guarantor Subsidiaries and may be held by JV Subsidiary Guarantors in the future. In addition, certain of our subsidiaries will not guarantee the Notes and their shares will not be pledged for the benefit of the holders of the Notes. The Subsidiary Guarantors do not and the JV Subsidiary Guarantors (if any) may not, have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees (if any) will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries. See “— Risks Relating to China — Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations.”

Creditors, including trade creditors of our PRC subsidiaries and other Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on the Non-Guarantor Subsidiaries' assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries (including obligations of our Non-Guarantor Subsidiaries under guarantees issued in connection with our business), and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2010, our Non-Guarantor Subsidiaries had bank loans in the amount of RMB9,864.6 million (US\$1,494.6 million) and capital commitments and contingent liabilities arising from guarantees of approximately RMB2,230.2 million (US\$337.9 million) and RMB8,060.5 million (US\$1,221.3 million), respectively.

See “Capitalization and Indebtedness.” The Notes, the 2010 Notes and their respective indentures do not restrict the ability of our subsidiaries to issue certain categories of guarantee in the ordinary course of business. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) securing the related obligations over claims of holders of the Notes.

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

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

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. As of December 31, 2008, 2009 and 2010, our total bank loans were RMB5,994.2 million, RMB8,645.5 million and RMB10,713.3 million (US\$1,623.2 million), respectively. As of December 31, 2010, we had the equivalent of RMB1,618.3 million (US\$245.2 million) of senior notes outstanding from the issuance of our 2010 Notes. We also finance some of our property developments with trust financing. See “Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements.”

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

- limit our ability to satisfy our obligations under the Notes, the 2010 Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Although the indentures governing the Notes and the 2010 Notes restrict us and our Restricted Subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

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

In addition, the terms of the indentures governing the Notes and the 2010 Notes prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratios requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our other financing arrangements also impose operating and financial restrictions on our business. See “Description of Material Indebtedness and Other Obligations.” Such restrictions in the Indenture, and the indenture governing the 2010 Notes, and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

If we are unable to comply with the restrictions and covenants in our debt agreements or the indentures governing the Notes and the 2010 Notes, there could be a default under the terms of these agreements or such indentures, which could cause repayment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in our debt agreements or the indentures governing the Notes and the 2010 Notes, there could be a default under the terms of these agreements or such indentures, which could cause repayment of our debt to be accelerated. On July 28, 2010, one of our Hong Kong subsidiaries entered into a credit facility agreement (the “Facility”). Under the Facility, the borrower’s obligations were to be secured by a range of assets, including security over physical assets and accounts of the borrower and its affiliates. The subsidiary entered into security agreements on July 28, 2010 in respect of the Facility in a manner requiring technical covenant compliance waivers from lenders under other existing loan facilities of the Group. The aggregate principal amount of these other facilities is approximately HK\$1,340.0 million. We were engaged in an evaluation of waivers to be obtained when, before amounts were drawn down on the Facility, on August 2, 2010, the borrower and the Facility lender determined to terminate the security documents by mutual consent. As a result of these developments, we believe the Facility has been effectively terminated, that it has effectively cured any period of technical covenant noncompliance relating to the terminated Facility under other existing indebtedness of the Group, and that we are in current compliance with all of our loan covenants. Nonetheless, while we believe

our actions in respect of the terminated Facility are in technical compliance with our covenant obligations, there can be no assurance that the relevant lenders will concur or will not seek to take adverse action in respect of their outstanding loans to the Group.

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

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes and the 2010 Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments 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 shares would not be available to us to make payments on the Notes. Further, certain loan agreements in relation to project loans obtained by our PRC subsidiaries from PRC lender banks contain provisions that restrict or prohibit the payment or declaration of dividends or distributions. Although such project loans typically do not require requisite consent or notice from the lender bank, these restrictions could have a negative impact on the calculation of our EBITDA and could also reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the ability of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be. See “Description of Material Indebtedness and Other Obligations.”

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 HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In practice, our PRC project companies may pay dividends only after the completion of the project development, at least the development of a phase or a stand-alone tower or building, and the revenue recognition but also the required government tax clearance and foreign exchange procedures. In addition, starting from January 1, 2008, 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, which specifically exempts or reduces such withholding tax. Pursuant to a double tax treaty between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy our obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders’ loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on our behalf on the

interest paid under any shareholders' loans. PRC regulations require approval by the SAFE prior to any of our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries and require such loans to be registered with the SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with the SAFE, as well as any other documents that the SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes, the 2010 Notes or the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be.

The terms of the Notes permit us to make investments in Unrestricted Subsidiaries and minority owned joint ventures

In light of land prices, sizes of projects and other factors, we may from time to time consider developing property developments jointly with other PRC property developers. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries under the indenture governing the Notes. Although the indenture governing the Notes restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications.

Under PRC regulations, we may not be able to transfer to our PRC subsidiaries the proceeds of this Notes offering in the form of a loan, which could impair our ability to make timely payments of interest, or even principal, under the Notes or the 2010 Notes

On July 10, 2007, the 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 registered with MOFCOM after June 1, 2007. As PRC companies cannot repay any loans or interest with respect to foreign debt under the PRC foreign exchange control system to persons outside the PRC without registration of the foreign debt with the SAFE, this new circular effectively prohibits our ability to fund our PRC subsidiaries in the form of loans. Therefore, the proceeds of the current offering that will be used for land acquisitions and developments in China can only be transferred to our PRC subsidiaries as equity investments and not as loans. Without having the flexibility to transfer funds to PRC subsidiaries as loans, we cannot assure you 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 the 2010 Notes, or on the maturity date or any redemption date to pay the principal of the outstanding Notes or the 2010 Notes.

Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries

The Notes are denominated in U.S. dollars, while substantially all of our revenue is generated by our PRC operating subsidiaries and is denominated in Renminbi. The value of Renminbi depends, to a large extent, on domestic and international economic, financial and political developments and China's governmental policies, as well as supply and demand in the local and international markets. Since 1999 till 2005, the conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, was based on exchange rates set and published

daily by the PBOC in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of Renminbi into the U.S. dollar was largely stable until July 2005. On July 21, 2005, the PBOC revalued Renminbi by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of Renminbi appreciated by more than 2% on that day. Since then, the PBOC has allowed the official Renminbi exchange rate to float against a basket of foreign currencies. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On June 19, 2010, the PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase the Chinese currency's exchange rate flexibility. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 24% from July 21, 2005 to November 30, 2010. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. The Renminbi exchange rate could fluctuate widely against the U.S. dollar or any other foreign currency in the future. Since our income and profits are denominated in Renminbi, any appreciation of Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Fluctuation of the value of Renminbi will also affect the amount of our foreign debt service in Renminbi terms since we have to convert Renminbi into foreign currencies to service our indebtedness in foreign currency and could adversely affect our financial condition and results of operations because of our substantial U.S. dollar-denominated indebtedness and other obligations. We currently do not hedge against our foreign exchange rate risk.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. In addition, following the offering of the Notes, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. 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 Indenture. If we were unable to provide such collateral, it could constitute a default under such agreements.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions (howsoever described), including such events relating to us and/or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us and/or any of our subsidiaries (as relevant) in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligation(s), and the payment and any other consequences and effects of such early termination(s), may be material to our financial condition and/or any of our subsidiaries and may be material in relation to the performance of our or their respective obligations under or in relation to the Notes (if applicable), any indebtedness or any other present or future obligations and commitments.

We may not be able to repurchase the Notes and the 2010 Notes upon a Change of Control Triggering Event

We must offer to purchase the Notes and the 2010 Notes upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See “Description of the Notes” and “Description of Material Indebtedness and Other Obligations — 2010 Notes.”

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of outstanding Notes and the outstanding 2010 Notes. Our failure to make the offer to purchase or purchase the outstanding Notes and the outstanding 2010 Notes would constitute an Event of Default under the Notes and the 2010 Notes. The Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and the 2010 Notes and repay the debt.

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

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

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

We may be unable to obtain and remit foreign exchange

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to the SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of

the 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on the interest payable in respect of such shareholder loan. Although under a regulation issued on July 10, 2007, we can no longer make shareholder loans to our PRC subsidiaries, we have in the past made shareholder loans to certain of our PRC subsidiaries to finance the property developments and land acquisitions that they are currently undertaking. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on our existing shareholder loans, which may affect our ability to satisfy our obligations under the Notes or the 2010 Notes.

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

If we are unable to comply with the restrictions and covenants in the Indenture governing the Notes, or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the indentures governing the Notes and the 2010 Notes, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Notes or the 2010 Notes, or result in a default under our other debt agreements, including the indentures governing the Notes and the 2010 Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Notes and the 2010 Notes and other debt agreements, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk

The indentures governing the Notes and the 2010 Notes and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

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

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

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

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

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

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

The Notes have been provisionally rated B+ by Standard and Poor's Ratings Services and B1 by Moody's Investors Service. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The 2010 Notes have been assigned a rating of B+ by Standard and Poor's Ratings Services and B1 by Moody's Investors Services. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the ratings will be confirmed or that the existing ratings on the 2010 Notes will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes or the 2010 Notes may adversely affect the market price of the Notes.

Certain transactions that constitute "connected transactions" under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") will not be subject to the "Limitation on Transactions with Shareholders and Affiliates" covenant

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

10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of “connected person” also captures “associates,” which include, among others, (a) any subsidiary of such “connected person,” (b) any holding company of such “connected person” and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

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

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

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

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

Facts and 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 and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers 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, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

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

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with HKFRS, which may differ in certain significant respects from generally accepted accounting principles in other jurisdictions which may in turn be material to the financial information contained in this offering memorandum. In making an

investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and any other generally accepted accounting principles and how those differences might affect the financial information contained in this offering memorandum.

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

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

Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral

Our initial Subsidiary Guarantors do not currently have significant operations

None of our current PRC subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. Moreover, the Notes will not be guaranteed by certain other Non-Guarantor Subsidiaries. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries and such Non-Guarantor Subsidiaries. In addition, certain of the Non-Guarantor Subsidiaries the capital stock of which has been pledged in favor of our existing lenders, and certain dormant companies, will not provide Subsidiary Guarantees upon issuance of the Notes and as a result, the Notes will be effectively subordinated to all the debt and other obligations of these Non-Guarantor Subsidiaries. See “Description of the Notes — The Subsidiary Guarantees” for a list of the Non-Guarantor Subsidiaries. Moreover, the Collateral will not include the capital stock of our existing or future PRC subsidiaries and Non-Guarantor Subsidiaries.

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. In addition, the Subsidiary Guarantors also guarantee our obligations under the 2010 Notes. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors or JV Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes and the 2010 Notes if we are unable to do so.

In addition, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to a third party of a minority interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company. See “— Risks Relating to the Notes — We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.”

The Intercreditor Agreement may impair the ability of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors to pay amounts due under the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees, and the Intercreditor Agreement may limit the rights of the Noteholders to the Collateral.

Provided the Shared Security Agent is, to the extent requested, indemnified and/or secured in respect of actions to be taken, is required to take action to enforce the Collateral in accordance with the instructions of the secured creditors given under the Intercreditor Agreement. Any enforcement action taken by the Shared Security Agent will adversely affect our entitlement to receive proceeds from the Collateral, which will, in turn, have an adverse impact on the Company's ability to fulfill its payment obligations under the Notes. Further, our ability to pay under the Subsidiary Guarantees will be adversely affected.

The ability of the Noteholders to enforce the Collateral is restricted under the Intercreditor Agreement, as only the Shared Security Agent is permitted to take enforcement actions. If an event of default occurs under the Notes, any secured party under the Intercreditor Agreement may decide whether to take any enforcement action and thereafter, through the Trustee, subject to the satisfaction of the conditions under the Intercreditor Agreement, may instruct the Shared Security Agent to take such enforcement action. In addition, by virtue of the instructions given to the Shared Security Agent described above, actions may be taken in respect of the Collateral that may be adverse to you. In such event, the only remedy available to the Noteholders would be to sue for payment on the Notes, the Subsidiary Guarantees, the JV Guarantees and the Collateral. For a description on the Intercreditor Agreement, see "Description of the Notes — Security — Intercreditor Agreement."

The Shared Security Agent, acting in its capacity as such, will have such duties with respect to the Collateral pledged, charged, assigned or granted pursuant to the Intercreditor Agreement and the Security Documents as are set forth in the Intercreditor Agreement, and as Trustee in respect of the Notes. Under certain circumstances, the Shared Security Agent may have obligations under the Security Documents or the Intercreditor Agreement and the underlying indentures that are in conflict with the interests of the holders of the Notes. The Shared Security Agent will not be under any obligation to exercise any rights or powers conferred under the Intercreditor Agreement or any of the Security Documents for the benefit of the holders of the Notes, unless the Shared Security Agent shall have received written instructions and to the extent requested, appropriate indemnification and/or security in respect of actions to be taken.

Security over the Collateral will not be granted directly to the holders of the Notes, and the Collateral will generally be shared with creditors under certain other financings.

Security over the Collateral for the obligations of the Company under the Notes and the Indenture will not be granted directly to the holders of the Notes but will be granted only in favor of the Shared Security Agent on behalf of the Trustee. As a consequence, holders of the Notes will not have direct security and will not be entitled to take enforcement action in respect of the security for the Notes, except through the Shared Security Agent, which has agreed to apply any proceeds of enforcement on such security towards such obligations.

In addition, the Indenture provides that the Collateral will be shared equally and ratably with the holders of the 2010 Notes, the lender under the SCB 2009 Facility and the lender under the SCB 2011 Facility, and all obligations of the Company and the Subsidiary Guarantors under all other future Permitted *Pari Passu* Secured Indebtedness including Citicorp International Limited, as trustee on behalf of the holder of the 2010 Notes and the Notes. For a further discussion of the

Intercreditor Agreement, see “Description of the Notes — Collateral — Intercreditor Agreement.” Because the Collateral will be shared equally and ratably with creditors under other financings, the full value of the Collateral will not be available to satisfy the Noteholders’ claims.

The Indenture also permits us to enter into certain future financings, and creditors under those future financings may share the Collateral *pari passu* with the holders of the Notes. See “Description of the Notes — Security — Permitted *Pari Passu* Secured Indebtedness” for a further discussion of the sharing of the Collateral with future financings. If creditors under future financings opt to share the Collateral under the Intercreditor Agreement, a smaller portion of the proceeds from the Collateral will be available to satisfy the Noteholders’ claims, which could have a material adverse effect on the ability of the Noteholders to recover sufficient proceeds to satisfy their claims under the notes.

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

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

For Subsidiary Guarantors incorporated in BVI:

- i. incurred the debt with the intent to defraud creditors (whenever the transaction took place, and irrespective of insolvency);
- ii. 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;
- iii. received no consideration, or received consideration in money or money’s worth that is significantly less than the consideration supplied by the guarantor;
- iv. in the case of ii. and iii., a guarantee will be only be voidable if it was entered into at a time when the guarantor was insolvent, or if it became insolvent as a consequence of doing so. Insolvent in this context under BVI law means that the guarantor is unable to pay its debts as they fall due. Additionally, a guarantee will only be vulnerable if is given within the 6 month period preceding the commencement of liquidation, or, if the guarantee and beneficiary are connected entities, two years.

For Subsidiary Guarantors incorporated in other jurisdictions:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor’s insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;

- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its 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 in respect of its existing debt as it became absolute and matured. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees or the JV Subsidiary Guarantees. In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration, and, as a result, such guarantee would be rendered void.

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

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

The pledge of certain Collateral may in some circumstances be voidable

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, the Cayman Islands and the British Virgin Islands at any time within six months of the creation of the pledge or, under some circumstances, within a longer period. Pledges of capital stock of future Subsidiary Guarantors or where applicable, certain JV Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the

analysis set forth under “— The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees.”

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

The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes, the 2010 Notes and other pari passu secured indebtedness

The Collateral will consist only of the capital stock of the initial Subsidiary Guarantors other than Market Network Limited and may in the future include our proportional interest in certain JV Subsidiary Guarantors. The security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in properties and assets that will not be pledged as additional Collateral.

The ability of the Shared Security Agent, on behalf of the Trustee, to foreclose on the Collateral upon the occurrence of an Event of Default or otherwise, will be subject in certain instances to perfection and priority issues. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Shared Security Agent, the Trustee or holders of the Notes will be able to enforce the security interest. In addition, although the Trustee may instruct the Shared Security Agent to foreclose the Collateral upon the occurrence of an event of default that is continuing, such instruction may be overruled by a contrary instruction to the Shared Security Agent from holders of more than 50% of the indebtedness that is subject to the Intercreditor Agreement.

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

The Collateral will be shared on a *pari passu* basis by the holders of the Notes, the holders of the 2010 Notes, the lender of the SCB 2009 Facility and the lender under the SCB 2011 Facility and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness. Accordingly, in the event of a default on the Notes, the 2010 Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness. The value of the Collateral securing the Notes, the 2010 Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company’s and each of the Subsidiary Guarantor Pledgors’ obligations under the Notes, the 2010 Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes, the 2010 Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes, additional 2010 Notes and the disposition of assets comprising the Collateral, subject to the terms of the Indenture and the indenture governing the 2010 Notes.

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

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable in connection with this offering, will be approximately US\$343.1 million. We intend to use the net proceeds to finance existing and new property projects.

We may adjust our development plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest such net proceeds in “Temporary Cash Investments” as defined under “Description of the Notes.”

EXCHANGE RATE INFORMATION

China

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. On May 18, 2007, PBOC enlarged, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. From July 21, 2005 to November 30, 2010, the value of the Renminbi appreciated by approximately 24% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day.

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

Period	Noon buying rate			
	Period end	Average ⁽¹⁾	High	Low
		(RMB per US\$1.00)		
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
September	6.6905	6.7396	6.8102	6.6869
October	6.6707	6.6678	6.6912	6.6397
November	6.6670	6.6538	6.6892	6.6330
December	6.6000	6.6497	6.6745	6.6000
2011				
January	6.6017	6.5964	6.6364	6.5809
February	6.5749	6.5764	6.5965	6.5520
March (through March 4, 2011)	6.5760	6.5703	6.5723	6.5670

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for average rates for periods in 2010, which are determined by averaging the daily rates during the respective periods.

On March 4, 2011, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US\$1.00 = RMB6.5760 as certified for customs purposes by the Federal Reserve Bank of New York.

Hong Kong

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

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

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

Period	Noon buying rate			
	Period end	Average ⁽¹⁾	High	Low
		(HK\$ per US\$1.00)		
2005	7.7533	7.7755	7.7999	7.7514
2006	7.7771	7.7685	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7449	7.7814	7.8159	7.7497
2009	7.7536	7.7514	7.7618	7.7495
2010	7.7810	7.7691	7.7865	7.7513
September	7.7599	7.7643	7.7738	7.7561
October	7.7513	7.7580	7.7642	7.7513
November	7.7649	7.7548	7.7656	7.7506
December	7.7810	7.7732	7.7833	7.7612
2011				
January	7.7926	7.7803	7.7978	7.7683
February	7.7933	7.7896	7.7957	7.7823
March (through March 4, 2011)	7.7879	7.7889	7.7897	7.7879

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for average rates for periods in 2010, which are determined by averaging the daily rates during the respective periods.

On March 4, 2011, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was US\$1.00 = HK\$7.7879 as certified for customs purposes by the Federal Reserve Bank of New York.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth on an actual basis our borrowings and capitalization as of December 31, 2010 and as adjusted to give effect to the Notes in this offering after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering. Except as otherwise disclosed herein, there has been no material change in our capitalization since December 31, 2010.

	For the year ended December 31, 2010			
	Actual		As Adjusted	
	RMB	US\$	RMB	US\$
	(in thousands)			
Cash and cash equivalents⁽¹⁾	<u>5,275,609</u>	<u>799,335</u>	<u>7,539,872</u>	<u>1,142,405</u>
Short-term borrowings⁽²⁾⁽³⁾⁽⁴⁾				
Bank loans — secured	977,840	148,157	977,840	148,157
Bank loans — unsecured	—	—	—	—
Current portion of long-term bank loans	<u>1,303,834</u>	<u>197,551</u>	<u>1,303,834</u>	<u>197,551</u>
Total short-term borrowings	<u>2,281,674</u>	<u>345,708</u>	<u>2,281,674</u>	<u>345,708</u>
Long-term borrowings⁽³⁾⁽⁴⁾⁽⁵⁾				
Bank loans — secured	7,940,615	1,203,123	7,940,615	1,203,123
Bank loans — unsecured	491,010	74,395	491,010	74,395
2010 Notes	1,618,331	245,202	1,618,331	245,202
Notes to be issued	—	—	2,264,263	343,070
Total long-term borrowings	<u>10,049,956</u>	<u>1,522,720</u>	<u>12,314,219</u>	<u>1,865,790</u>
Equity attributable to owners of the parent				
Issued capital (HK\$0.1 par value per share, 2,893,150,000 shares issued and fully paid)	280,485	42,498	280,485	42,498
Treasury shares	—	—	—	—
Reserves	10,985,534	1,664,475	10,985,534	1,664,475
Proposed final dividend	<u>318,247</u>	<u>48,219</u>	<u>318,247</u>	<u>48,219</u>
Total equity attributable to owners of the parent	<u>11,584,266</u>	<u>1,755,192</u>	<u>11,584,266</u>	<u>1,755,192</u>
Total capitalization⁽⁶⁾	<u>21,634,222</u>	<u>3,277,912</u>	<u>23,898,485</u>	<u>3,620,982</u>

(1) Cash and cash equivalents exclude restricted cash of RMB1,528.0 million (US\$231.5 million). Subsequent to December 31, 2010, our cash and cash equivalents were reduced primarily due to payments that we have made in order to fund our property development projects in China.

(2) Short-term borrowings include the current portion of long-term bank loans.

(3) Our borrowings do not include any accrual for capital commitments or contingent liabilities. As of December 31, 2010, capital commitments were RMB2,717.9 million (US\$411.8 million) and our contingent liabilities, which were in the form of guarantees that we have provided to our customers in relation to their purchase of our properties, guarantees given to a bank in connection with bank loans granted to an associate and a jointly controlled entity, guarantees provided in respect of a trust finance for a jointly-controlled entity and guarantees given to a bank in connection with bank loans granted to a third party, amounted to approximately RMB6,160.6 million (US\$933.4 million), RMB460.0 million (US\$69.7 million), RMB900.0 million (US\$136.4 million) and RMB700.0 million (US\$106.1 million), respectively. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations — Liquidity and Capital Resources — Contingent Liabilities” and “— Contractual Obligations.”

- (4) As of December 31, 2010, our Non-Guarantor Subsidiaries had bank loans in the amount of RMB9,864.6 million (US\$1,494.6 million) and capital commitments and contingent liabilities arising from guarantees of approximately RMB2,230.2 million (US\$337.9 million) and RMB8,060.5 million (US\$1,221.3 million), respectively.
- (5) Long-term borrowings exclude the current portion of long-term bank loans.
- (6) Total capitalization includes total long-term borrowings plus total equity attributable to owners of the parent.

On February 9, 2011, we signed a loan agreement with SCB for a secured and guaranteed Hong Kong dollar denominated term loan facility with an aggregate principal amount of up to HK\$195 million. As of the date of this offering memorandum, the principal amount of the loan facility in Hong Kong dollars drawn down and outstanding is equivalent to US\$25 million. See “Description of Material Indebtedness and Other Obligations — Recent Material Indebtedness.”

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected consolidated income statement for the years ended December 31, 2008, 2009 and 2010 and the selected consolidated statement of financial position data as of December 31, 2008, 2009 and 2010 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by Ernst & Young, independent certified public accountants, and included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The selected financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Selected Consolidated Income Statement and Other Financial Data

	Year Ended December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	US\$
	(in thousands)			
Revenue	1,574,214	4,266,572	7,465,911	1,131,199
Cost of sales	<u>(746,413)</u>	<u>(2,650,267)</u>	<u>(4,368,278)</u>	<u>(661,860)</u>
Gross profit	827,801	1,616,305	3,097,633	469,339
Other income and gains	150,644	49,265	78,893	11,953
Selling and marketing costs	(89,514)	(188,494)	(242,805)	(36,789)
Administrative expenses	(170,908)	(281,988)	(413,836)	(62,702)
Other operating expenses, net.	(1,758)	(42,183)	(5,356)	(812)
Fair value gains/(losses) on investment properties, net ⁽¹⁾ . .	(23,569)	60,587	3,869	586
Finance costs	—	(9,024)	(19,974)	(3,026)
Share of profits and losses of:				
Associates	—	(10)	(2,246)	(340)
Jointly-controlled entities.	<u>10,582</u>	<u>65,024</u>	<u>11,485</u>	<u>1,740</u>
Profit before tax	703,278	1,269,482	2,507,663	379,949
Income tax expenses	<u>(337,108)</u>	<u>(548,025)</u>	<u>(1,225,889)</u>	<u>(185,741)</u>
Profit for the year	<u><u>366,170</u></u>	<u><u>721,457</u></u>	<u><u>1,281,774</u></u>	<u><u>194,208</u></u>

	Year Ended December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	US\$
	(in thousands)			
OTHER FINANCIAL DATA				
EBITDA ⁽²⁾	574,877	1,121,166	2,469,763	374,207
EBITDA margin ⁽³⁾	36.5%	26.3%	33.1%	33.1%

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- (1) Certain information may not be comparable in the periods shown due to the adoption of new and revised HKFRS. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Valuation of Our Investment Properties.”
- (2) EBITDA for any period consists of profit before tax less fair value gains/(losses) on investment properties, other income and gains, and share of profits and losses of associates and jointly-controlled entities plus finance costs, depreciation and amortization expenses. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company’s ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures” for a reconciliation of our profit for the year under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See “Description of the Notes — Definitions” for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (3) EBITDA margin is calculated by dividing EBITDA by revenue.

Selected Consolidated Statement of Financial Position Data

	As of December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	US\$
	(in thousands)			
NON-CURRENT ASSETS				
Property, plant and equipment	443,268	981,508	1,343,901	203,621
Investment properties	3,546,400	3,501,460	3,461,980	524,542
Land use rights.	549,952	572,833	866,274	131,254
Investments in associates	—	1,348,990	3,403,588	515,695
Investments in jointly-controlled entities	20,487	1,228,036	5,434,914	823,472
Deferred tax assets	168,453	398,325	603,560	91,449
Long term prepayment	1,098,483	—	—	—
Total non-current assets	<u>5,827,043</u>	<u>8,031,152</u>	<u>15,114,217</u>	<u>2,290,032</u>
CURRENT ASSETS				
Properties under development	11,878,560	13,951,102	13,730,027	2,080,307
Completed properties held for sale	1,534,404	2,300,415	2,553,758	386,933
Trade receivables	30,713	147,413	47,687	7,225
Prepayments, deposits and other receivables	1,069,487	453,039	1,679,437	254,460
Due from a jointly-controlled entity	50,314	46,999	46,155	6,993
Taxes recoverable	3,316	24,492	59,450	9,008
Restricted cash	205,942	1,069,876	1,527,992	231,514
Cash and cash equivalents	1,167,009	2,540,698	5,275,609	799,335
Total current assets.	<u>15,939,745</u>	<u>20,534,034</u>	<u>24,920,115</u>	<u>3,775,775</u>
CURRENT LIABILITIES				
Trade payables	2,879,007	1,415,470	1,670,898	253,166
Other payables and accruals	2,063,396	5,222,361	8,745,262	1,325,040
Due to associates	—	129,956	442,382	67,028
Due to a jointly-controlled entity	—	—	73,454	11,129
Interest-bearing bank and other borrowings.	1,058,928	2,566,628	2,281,674	345,708
Taxes payable.	1,012,289	1,418,808	2,217,971	336,056
Total current liabilities	<u>7,013,620</u>	<u>10,753,223</u>	<u>15,431,641</u>	<u>2,338,127</u>
NET CURRENT ASSETS.	<u>8,926,125</u>	<u>9,780,811</u>	<u>9,488,474</u>	<u>1,437,648</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>14,753,168</u>	<u>17,811,963</u>	<u>24,602,691</u>	<u>3,727,681</u>

	As of December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	US\$
	(in thousands)			
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	4,935,253	6,078,852	10,049,956	1,522,721
Deferred tax liabilities	626,704	624,788	669,168	101,389
Deferred revenue	—	700,000	700,000	106,061
Other non-current liabilities	—	—	1,589,295	240,802
Total non-current liabilities	<u>5,561,957</u>	<u>7,403,640</u>	<u>13,008,419</u>	<u>1,970,973</u>
Net assets	<u>9,191,211</u>	<u>10,408,323</u>	<u>11,594,272</u>	<u>1,756,707</u>
EQUITY				
Equity attributable to owners of the parent				
Issued capital	254,093	280,538	280,485	42,498
Treasury shares	—	(3,041)	—	—
Reserves	8,136,797	9,982,514	10,985,534	1,664,475
Proposed final dividends	77,813	144,658	318,247	48,219
	<u>8,468,703</u>	<u>10,404,669</u>	<u>11,584,266</u>	<u>1,755,192</u>
Minority interests	722,508	3,654	10,006	1,516
Total equity	<u>9,191,211</u>	<u>10,408,323</u>	<u>11,594,272</u>	<u>1,756,708</u>

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

The following discussion should be read in conjunction with the section entitled "Selected Consolidated Financial and Other Data" and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated.

Our consolidated financial statements were prepared in accordance with HKFRS, which may differ in certain material respects from generally accepted accounting principles in other jurisdictions. In this section of the offering memorandum, references to "2008," "2009" and "2010" refer to our financial years ended December 31, 2008, 2009 and 2010, respectively.

Overview

We are a large scale property developer with a leadership position in Guangzhou and an established presence in Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan. We focus on medium-to high-end residential property developments with distinctive characteristics. To diversify our earnings mix, we also develop commercial properties in prime locations as long-term investments, including office buildings, shopping malls, serviced apartments and hotels. We commenced operation of our first office property, International Finance Place, in August 2007. In September 2009, we opened our first hotel, Four Points by Sheraton in Guangzhou, and are currently developing two additional high-end hotels in Guangzhou, including mainland China's first W Hotel and Huadu Sheraton Resort, as well as W Service Apartment, a high-end serviced apartment in Guangzhou. In addition, we are planning to develop six further high-end hotels and six high-end shopping malls in various cities including Guangzhou, Suzhou and Chengdu, as well as Hainan Province. Our hotels will be operated by internationally renowned hotel operators including affiliates of Starwood Hotels & Resorts Worldwide, Inc. (the "Starwood Hotels Group"). We believe our investment properties and hotels will help further strengthen our brand name. We also engage in property-related businesses such as property management for residential and commercial properties.

For 2008, 2009 and 2010, our revenue was RMB1,574.2 million, RMB4,266.6 million and RMB7,465.9 million (US\$1,131.2 million), respectively. For 2008, 2009 and 2010, our profit was RMB366.2 million, RMB721.5 million and RMB1,281.8 million (US\$194.2 million), respectively.

Key Factors Affecting Our Performance

Our business, results of operations and financial condition are affected by a number of factors, many of which are beyond our control. See "Risk Factors." Such factors include the following:

The Regulatory Environment and Measures Affecting the Real Estate Industry in China

Our business and results of operations have been, and will continue to be, affected by the regulatory environment in China, PRC governmental policies and measures taken by the PRC government on property development and related industries. In recent years, the PRC government has implemented a series of measures with a view to control the growth of the economy, including the real estate markets. While the real estate industry is regarded as a pillar industry by the PRC government, the PRC government has taken various restrictive measures to discourage speculation in the real estate market and to increase the supply of affordable residential properties. From time to time, the PRC government adjusts or introduces macroeconomic control policies to encourage or restrict development in the private property sector through regulating, among others, land grants,

pre-sales of properties, bank financing and taxation. Measures taken by the PRC government to control money supply, credit availability and fixed assets also have a direct impact on our business and results of operations. The PRC government may introduce initiatives which may affect our access to capital and the means by which we may finance our property development. See “Regulations” for more details on the relevant PRC laws and regulations.

China’s economy has experienced a slowdown as a result of the recent global economic and financial crisis. Recently there have been signs showing that China’s economy has rebounded from its worst growth in a decade since the second quarter of 2009. In particular, there have been signs of recovery in China’s property market since the second quarter of 2009. In addition, global economic conditions have also improved as governments around the world have taken remedial actions to address the economic slowdown and financial crisis. However, there is no assurance that such improved conditions can be sustained. It is also difficult to determine the continued impact of the global economic slowdown and financial crisis on the property industry in China due to its unprecedented nature. If the global economic slowdown and financial market crisis continue or become more severe than currently estimated, our business prospects, revenues, cash flows and financial condition could be materially and adversely affected.

In response to the global financial crisis and in an effort to expand domestic demand, the State Council issued a notice on Adjusting the Capital Ratio of Fixed Asset Investment Projects (國務院關於調整固定資產投資項目資本金比例的通知) on May 25, 2009. Pursuant to the notice, the capital ratio for government subsidized housing projects and ordinary commodity housing projects was reduced from 35% to 20%, and the capital ratio for other property development projects was reduced from 35% to 30%. On October 22, 2008, the PBOC promulgated the Notice on Several Issues Regarding the Expansion of the Extent of Downward Floating Interest Rate for Commercial Individual Housing Loans (關於擴大商業性個人住房貸款利率下浮幅度有關問題的通知). Pursuant to the notice, the minimum down payment for home buyers on their first home purchase was lowered to 20% of the purchase price, with the minimum mortgage loan interest rate lowered to 70% of the relevant PBOC benchmark interest rate. These and other measures have affected the overall economy in China, with differing effects on various sectors. For example, in November and December 2009, in response to the rising property prices across the country, the PRC government announced new policies and adopted new measures to curtail speculation in the property market and imposed more stringent requirements on the payment of land premiums by property developers. PRC regulatory measures in the real estate industry will continue to impact our business and results of operations.

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

The Product Mix and Geographic Locations of Our Properties

Our principal source of revenue and cash from operations is derived from the sale of units in our residential properties, and to a lesser extent from sales of office properties, retail properties, car park spaces and serviced apartments. We also derive recurring revenue from our investment properties, which are held for recurring income and/or for capital appreciation. Our results of operations and the sources and amount of our cash from operations may vary significantly from period to period depending on the type and volume of our completed properties that we sell or rent, which frequently depends on the timing of the completion of various stages in the property development process. See “— Timing of Property Development.” Our results of operations and cash flows will also vary depending on the market demand at the time we sell or rent our properties, which affects the rental and occupancy rates of our investment properties and hotels and the selling prices for units in our residential properties. The recurring income and selling prices we receive from, and the occupancy levels of, our property developments depend on local market prices which in turn depend on local supply and demand conditions, as well as the type of property being developed.

Timing of Property Development

The number of property developments that a developer can undertake during any particular period is limited due to substantial capital requirements for land acquisitions and construction costs as well as limited land supply. In addition, significant time is required for property developments and it may take many months or probably years before pre-sales of a property development can occur. Moreover, while the pre-sale of a property generates positive cash flow for us in the period in which it is made, we must place a portion of such proceeds in restricted bank accounts and may only use such cash for specified purposes. In addition, no revenue is recognized with respect to such property until it has been completed and delivered to the purchaser. As market demand is not stable, revenue in a particular period can also depend on our ability to gauge the expected demand in the market at the expected completion date of a particular project, while delays in construction, regulatory approval processes and other factors can adversely affect the timetable of our projects. As our revenue from sales of properties are recognized upon the delivery of properties, the timing of such delivery may not only affect the amount and growth rate of our revenue but also cause changes in other payables and accruals to fluctuate from period to period. As a result, our results of operations have fluctuated in the past, primarily due to the volume of GFA delivered, which is partially a result of timing of our property development, and are likely to continue to fluctuate in the future.

Fluctuation in the Valuation of Our Investment Properties

Our investment properties principally consist of office buildings for rent, retail shop units and car park spaces held for recurring revenue and/or for capital appreciation. Our investment properties (excluding hotels and serviced apartments, which are recorded as non-current assets under “Property, plant and equipment” on our consolidated statements of financial position) are stated at their fair value on our consolidated statements of financial position as non-current assets as of the end of each reporting period on the basis of valuations by an independent property valuer or by our management. Gains or losses arising from changes in the fair value of our investment properties are accounted for as profit or loss upon revaluation increase or decrease in investment properties in our consolidated income statements, which may have a substantial effect on our profits. The property valuation involves the exercise of professional judgment and requires the use of certain bases and assumptions. The bases and assumptions which the valuer uses for the valuation typically includes values realized in comparable precedent transactions in the market for properties of similar size, character and location. The fair value of our investment properties may have been higher or lower if the valuer used a different set of bases or assumptions or if the valuation was conducted by other

qualified independent professional valuers using a different set of bases and assumptions. In addition, upward revaluation adjustments reflect unrealized capital gains on our investment properties as of the relevant reporting dates and are not profit generated from the sales or rentals of our investment properties, and do not generate any cash inflow 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 may fluctuate significantly. We cannot assure you that we will record fair value gains, or that we will not record fair value losses, in the future. For 2008, 2009 and 2010, we recorded net fair value gains (losses), net of deferred tax, of RMB(17.7) million, RMB45.5 million and RMB2.9 million (US\$0.4 million), respectively.

Availability and Cost of Land

To have a steady stream of properties available for sale and to achieve continuous growth in the long term, we need to replenish and increase suitable land reserves at commercially acceptable prices. Land acquisition costs are one of the primary components of our cost of sales for property development, which consists of land premium and where necessary, the cost of demolition of existing buildings and relocation of residents. The cost of acquiring land has a direct and substantial effect on our gross margins. We expect competition among property developers for suitable land reserves to remain intense, which affects land prices. In addition, PRC governmental land supply policies and implementation measures may further intensify competition for land in China among property developers. For example, although privately held land use rights are not prevented from being traded in the secondary market, the statutory means of public tender, auction and listing-for-sale practice in respect of the grant of state-owned land use rights is likely to increase competition for available land and to increase land acquisition costs. Furthermore, in November 2009, the PRC government raised the minimum down-payment of land premium to 50% and now requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions. In March 2010, the Ministry of Land and Resources promulgated a notice to strictly regulate the transfer of land for commercial buildings. According to the notice, the area of a parcel of land granted for commodity residential project should be strictly restricted in accordance with the catalogue of restricted use of land and the minimum price of the land transfer should not be less than 70% of the benchmark price of the place where the land being transferred is located, and the real estate developer's bid deposit should not be less than 20% of the minimum transfer price. See "Regulations — The Land System of the PRC — National Legislation." These changes of policy may materially and adversely affect our cash flow and our ability to acquire suitable land for our operations.

Costs of Labor and Construction Materials

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

To reduce our exposure to price volatility of construction materials, we typically enter into contracts with third party construction contractors pursuant to which the construction contractors are responsible for procuring most of the construction materials for our property development

projects. Such construction contracts are typically fixed or capped unit price contracts where the unit price of the construction materials is fixed or capped and the total price payable depends on our quantity requirement. Similarly, under the terms of most of our construction contracts, labor wages are paid by the construction contractors and increasing costs of labor are borne by the contractors during the term of such contracts. However, we are exposed to price volatility of labor and construction materials to the extent that we periodically enter into or renew our construction contracts at different terms during the life of a project, which may span over several years, or if we hire construction workers directly or procure the construction materials directly from suppliers, any of which may result in increased cost of sales and decreased profit margin. Furthermore, we typically pre-sell our properties prior to their completion and we will not be able to pass the increased costs on to our customers if labor or construction costs increase subsequent to the time of such pre-sale.

Access to and Cost of Financing

Borrowing is an important source of funding for our property developments. As of December 31, 2008, 2009 and 2010, our outstanding bank loans amounted to RMB5,994.2 million, RMB8,645.5 million and RMB10,713.3 million (US\$1,623.2 million), respectively. Because commercial banks in China link the interest rates on their borrowings to the benchmark lending rates published by PBOC, any increase in such benchmark lending rates will increase the interest costs for financing our developments. Our access to capital and cost of financing are affected by restrictions imposed from time to time by the PRC government on bank lending for property development. In addition, since we have Hong Kong dollar denominated debt, our access to capital and cost of financing are also affected by fluctuations in the Hong Kong Interbank Offered Rate, an interest rate stated in Hong Kong dollars on the lending and borrowing between banks in the Hong Kong interbank market. A significant portion of our finance costs are capitalized rather than being expensed at the time they are incurred to the extent such costs are directly attributable to the acquisition and construction of a project or a projected phase.

Our capitalized borrowing costs attributable to revenue included in our cost of sales in 2008, 2009 and 2010 was RMB35.1 million, RMB123.9 million and RMB189.0 million (US\$28.6 million), respectively. An increase in our finance costs would negatively affect our profitability and results of operations and the availability of financing will affect our ability to engage in our project development activities, which will negatively affect our results of operations.

Critical Accounting Policies

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in Note 2.4 to our consolidated financial statements included in this offering memorandum. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition, cost or expense allocation and provision. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our consolidated financial statements. See Note 3 to the financial statements starting on page F-1 of this offering memorandum.

Revenue Recognition

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

- (a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and installments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) hotel revenue from room rentals, food and beverage sales and other ancillary services when the services are rendered;
- (d) property management fee income, when the related management services have been provided; and
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Properties Under Development, Cost of Sales and Completed Properties Held for Sale

Properties under development are intended to be held for sale after completion. Properties under development are stated at the lower of cost and net realizable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period. Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Cost of sales for each property we sell includes construction costs, costs of obtaining land use rights and capitalized borrowing costs on related borrowed funds during the period of construction, based upon the total saleable GFA of properties expected to be sold in each project, which are allocated to each property based on the estimated relative saleable GFA of each property. We make such estimates based on the information available at the time of completion of the relevant sales contracts, including the development plan and budget for the project. If there is any change to the estimated total development cost subsequent to the initial sales for a project, for example, due to fluctuations in construction costs or changes in development plans, we will need to finalize the cost with the contractor and allocate the increased or decreased cost to all the properties in the project, including those that have been sold in prior periods, which will increase or decrease the unit costs of, and erode or improve the margins realizable on, the properties of the project during the period in which such change occurs.

Completed properties held for sale are stated at the lower of cost and net realizable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realizable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Valuation of Our Investment Properties

Our investment properties are stated at fair value based on valuations performed by independent professional valuers. In determining the fair value, the valuers have based this on a method of valuation which involves certain estimates. In relying on the valuation report provided by the valuers, our management team has exercised its judgment and is satisfied that the method of valuation is reflective of current market conditions. See “Certain Income Statement Items — Fair Value Gains on Investment Properties.”

Effective from January 1, 2009, Hong Kong Accounting Standard 40 revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property. The Group has applied the amendments prospectively from January 1, 2009. The Group’s accounting policy for investment properties is to subsequently state them at fair value with changes in fair values recognized in profit or loss. As a result of the amendments, an investment property under construction is carried at fair value at the earlier of when the fair value first becomes reliably determinable and when the construction of the property is completed.

As a result of the adoption of this amendment, during the year ended December 31, 2009, the Group reclassified properties under development of approximately RMB11.8 million into investment properties. A fair value increase of approximately RMB58.4 million in respect of the investment properties under construction has been recognized in the income statement for the year ended December 31, 2009.

Capitalized Borrowing Costs

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

LAT

We are subject to LAT with respect to the appreciated value of land. LAT applies to both domestic and foreign developers and investors in real properties in China, irrespective of whether they are corporate entities or individuals. For 2008, 2009 and 2010, we made LAT prepayments of RMB36.1 million, RMB62.2 million and RMB189.3 million (US\$28.7 million), respectively and LAT provisions of RMB197.6 million, RMB351.2 million and RMB694.2 million (US\$105.2 million), respectively. We prepay LAT on the basis of our pre-sale proceeds in accordance with requirements of PRC tax authorities and provide for unpaid LAT liabilities based on our best estimate according to our understanding of prevailing tax rules. Actual LAT liabilities are, however, subject to determination by the tax authorities upon completion of the property development projects and, because the PRC government has not published clear and comprehensive guidelines in this regard, the tax authorities may disagree that our provisions are sufficient to cover all actual LAT obligations as of each balance sheet date in respect of our past LAT liabilities. See “Regulations — Taxation in China — Land Appreciation Tax.”

Classification between Investment Properties and Properties Held for Sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgment is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as assets under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to investment properties and are subject to revaluation at the end of each reporting period.

Certain Income Statement Items

Revenue

Our revenue represents the (i) gross proceeds from the sale of properties, (ii) gross rental income received and receivable from investment properties, (iii) gross revenue from hotel operation and (iv) property management fee income, which is categorized into four segments: property development, property investment, hotel operation and property management, respectively. We are subject to business tax at the rate of approximately 3% to 5% for all our operating segments. Revenue is presented net of business tax.

The following table sets forth our revenue in each operating segment and the percentage of revenue represented by each segment in 2008, 2009 and 2010, respectively.

	Year Ended December 31,						
	2008		2009		2010		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Property development	1,471,220	93.5%	4,109,986	96.3%	7,221,143	1,094,113	96.7%
Property investment	74,526	4.7%	98,701	2.3%	124,178	18,815	1.7%
Hotel operation	—	—	10,003	0.3%	56,914	8,623	0.8%
Property management	28,468	1.8%	47,882	1.1%	63,676	9,648	0.8%
Total	<u>1,574,214</u>	<u>100%</u>	<u>4,266,572</u>	<u>100%</u>	<u>7,465,911</u>	<u>1,131,199</u>	<u>100%</u>

In 2008, 2009 and 2010, we derived substantially all of our revenue from the development and sale of residential properties. In the future, we intend to further expand our business into the development of hotels, office buildings and other commercial properties, and therefore we expect that our recurring revenue generated from our property management, hotel operation and property investment segments should increase over time.

Property Development

The following table sets forth the revenue and GFA sold by project for 2008, 2009 and 2010, respectively.

	Year Ended December 31,									
	2008			2009			2010			
	sq.m.	RMB (in thousands)	%	sq.m.	RMB (in thousands)	%	sq.m.	RMB (in thousands)	US\$ (in thousands)	%
Linkreit International Business Development Center ⁽¹⁾ . . .	10,406	83,519	5.7%	3,280	25,308	0.6%	3,054	24,433	3,702	0.3%
Ma'an Mountain No.1	11,600	91,404	6.2%	3,836	39,472	1.0%	1,725	11,635	1,763	0.2%
Cosmos	21,535	553,888	37.6%	9,719	215,802	5.3%	4,720	126,209	19,123	1.7%
Jinghu Garden	35,170	171,595	11.7%	57,123	255,835	6.2%	5,468	33,787	5,119	0.5%
Sky Ville	33,475	332,825	22.6%	115,539	625,694	15.2%	73,869	508,352	77,023	7.0%
Colour of United	402	2,217	0.2%	—	—	—	—	—	—	—%
Waterfront Mansion	9,805	42,548	2.9%	154,008	699,729	17.0%	73,274	442,654	67,069	6.1%
King Peak Garden	11,138	193,224	13.1%	21,726	425,711	10.4%	859	13,862	2,100	0.2%
The City Island	—	—	—	58,992	351,462	8.6%	109,786	808,954	122,569	11.2%
The Apex	—	—	—	64,408	1,288,201	31.3%	7,474	464,923	70,443	6.4%
The Emerald	—	—	—	21,203	182,772	4.4%	28,604	285,081	43,194	3.9%
International Creative Valley	—	—	—	—	—	—	75,518	754,879	114,376	10.5%
The Summit	—	—	—	—	—	—	33,161	610,660	92,524	8.5%
Up Blue Town	—	—	—	—	—	—	95,007	448,786	67,998	6.2%
Vision of the World	—	—	—	—	—	—	53,282	263,092	39,862	3.7%
The Sapphire	—	—	—	—	—	—	140,876	1,232,563	186,752	17.1%
Fragrant Seasons	—	—	—	—	—	—	29,713	368,236	55,793	5.1%
Chengdu Cosmos	—	—	—	—	—	—	47,726	823,037	124,703	11.4%
	<u>133,531</u>	<u>1,471,220</u>	<u>100%</u>	<u>509,834</u>	<u>4,109,986</u>	<u>100%</u>	<u>784,116</u>	<u>7,221,143</u>	<u>1,094,113</u>	<u>100%</u>

(1) Historical project, for which as of December 31, 2010, substantially all of the saleable GFA attributable to our Group had been sold out.

Revenue from property development represents proceeds from sales of our properties held for sale. Because we derive substantially all of our revenue from the property development segment, our results of operations for a given period depend upon the GFA of properties we have completed and delivered during that period, the market demand for those properties and the price we are able to obtain for such properties. Conditions of the property markets in which we operate change from period to period and are affected by the general economic, political and regulatory developments in the PRC as well as in Guangzhou and other locations where we operate. See “— Key Factors Affecting Our Performance.”

Consistent with industry practice, we typically enter into purchase contracts with customers while the properties are still under development but after satisfying the conditions for pre-sales in accordance with PRC laws and regulations. See “Business — Property Development — Pre-sale.” In general, there is a time difference, typically ranging from several months to one year, between the time we commence pre-selling properties under development and the completion of the relevant property development. We do not recognize any revenue from the pre-sales of our properties until such properties are completed and delivered to the purchasers, even though we receive payments at various stages prior to delivery. Before the delivery of a pre-sold property, payments received from purchasers are recorded as “Deposits received and receipts in advance” under “Current Liabilities — Other payables and accruals” on our consolidated statements of financial position. As our revenue from sales of properties are recognized upon the delivery of properties, the timing of such delivery may not only affect the amount and growth rate of our revenue but also cause changes in other payables and accruals to fluctuate from period to period. As of December 31, 2008, 2009 and 2010,

our deposits received in advance arising from pre-sales of various development projects, amounted to approximately RMB803.7 million, RMB3,308.5 million and RMB6,686.4 million (US\$1,013.1 million), respectively.

Property Investment

Revenue from our property investment segment represents recurring revenue from our investment properties, which has historically been generated from the rental of the retail properties and car park spaces of our residential projects, that is recognized on a straight-line basis over the lease period. For 2008, 2009 and 2010, our gross rental income was RMB74.5 million, RMB98.7 million and RMB124.2 million (US\$18.8 million) respectively. In the future, we expect that our recurring revenue will continue to increase over time as we further expand to the development and management of office buildings and other commercial properties. We believe the increase of such recurring revenue will help us reduce over-reliance on a particular sector of the property market and diversify our risk exposure to reduce the potential impact of adverse developments in the PRC economy and property markets in the cities in which we do business.

Hotel Operation

Revenue derived from hotel operations is recognized when such services are provided. Revenue from our hotel operations was RMB10.0 million and RMB56.9 million (US\$8.6 million) for the year ended December 31, 2009 and 2010, respectively. We expect that as a proportion of our total revenue, revenue from hotel operations will continue to increase as we develop more hotel projects in the future.

Property Management

Revenue from our property management segment is recognized when the related management services are provided. We established our two property management subsidiaries in 2003 and 2004, respectively, which provide property management services to our residential and commercial properties. For 2008, 2009 and 2010, our revenue from property management fees was RMB28.5 million, RMB47.9 million and RMB63.7 million (US\$9.7 million), respectively. We expect that our revenue from property management fees will increase over time due to the cumulative growth of our portfolio of residential and commercial properties under management. We currently do not and do not intend to provide property management services to third-party projects.

Cost of Sales

Cost of sales primarily represents the costs we incur directly for our property development activities. The principal component of cost of sales is cost of properties sold, which includes the direct cost of construction, costs of obtaining land use rights and capitalized borrowing costs on related borrowed funds during the period of construction.

The table below sets forth information relating to cost of sales for the periods indicated.

	Year Ended December 31,						
	2008		2009		2010		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Sales of properties							
Land	149,229	20.0%	622,885	23.5%	1,379,063	208,949	31.6%
Capitalized interest	35,139	4.7%	123,909	4.7%	189,041	28,642	4.3%
Construction cost	554,527	74.3%	1,890,195	71.3%	2,749,633	416,611	62.9%
	738,895	99.0%	2,636,989	99.5%	4,317,737	654,202	98.8%
Property management	7,518	1.0%	11,864	0.4%	23,642	3,582	0.6%
Hotel operation	—	—	1,414	0.1%	26,899	4,076	0.6%
Total	<u>746,413</u>	<u>100%</u>	<u>2,650,267</u>	<u>100%</u>	<u>4,368,278</u>	<u>661,860</u>	<u>100%</u>

We recognize the cost of sales of our properties for a given period to the extent that revenue from such properties have been recognized in such period. Prior to their completion and delivery, properties under development are included in our consolidated statements of financial position at the lower of cost and net realizable value. Net realizable value for our properties under development is determined by reference to management’s estimates of the selling prices based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs of completion. Net realizable value for our completed properties held for sale is determined by our directors based on prevailing market prices, or on individual property basis. Cost for properties under development comprises construction costs, costs of obtaining land use rights, and capitalized borrowing costs. The components of our cost of sales may change in any given year based on the stage of our projects in the property development process. See “Business — Property Development.”

Construction Costs

Construction costs include all of the costs for the design and construction of a project, including payments to third-party contractors and designers and costs of construction materials. Historically, construction material costs (which are generally included in the payments to the construction contractors), particularly the cost of steel and cement, has been a major cause of fluctuations in our construction costs. See “— Key Factors Affecting Our Performance — Cost of Labor and Construction Materials.”

Other components of our construction costs include ventilation systems, plant watering systems, elevators and interior decoration materials. Construction cost per sq.m. decreased slightly from RMB3,708.0 for the year ended December 31, 2009 to RMB3,507.0 (US\$531.4) for the year ended December 31, 2010, principally due to cost control mechanisms we implemented in 2010. Construction cost per sq.m. decreased from RMB4,152.8 in 2008 to RMB3,708.0 in 2009, principally due to the increasing proportion of our construction of mid-end residential projects which have relatively lower construction costs.

In addition, with the overall improvement of living standards in the PRC as well as the PRC government’s recent policies aiming to increase wages of migrant workers, we expect the trend of increasing labor costs to continue into the near future, which in turn will increase our construction costs.

Costs of Land Use Rights

Costs of land use rights include costs relating to acquisition of the rights to occupy, use and develop land, and primarily represent land premiums incurred in connection with a land grant from the government or land obtained in the secondary market by transfer, cooperative arrangement, corporate acquisition or otherwise. Our costs of land use rights are influenced by a number of factors, including the location of the property, the timing of the acquisition, and the project's plot ratios. Costs of land use rights are also affected by our method of acquisition, whether by PRC government-organized tenders, auctions or listings-for-sale, through private sale transactions and cooperative agreements with third parties in the secondary market or through the acquisition of other companies that hold land use rights. We may also be required to pay demolition and resettlement costs. Our costs of land use rights are also vulnerable to changes in PRC regulations. Land cost per sq.m. increased to RMB1,759.0 (US\$266.5) for the year ended December 31, 2010, from RMB1,222.0 in 2009, principally due to the fact that recognized land costs were for projects at better locations with relatively higher land costs. Costs of land use rights per sq.m. remained constant in 2008 and 2009.

Capitalized Borrowing Costs

We capitalize a portion of our costs of borrowings to “properties under development,” “investment properties” or “assets under construction” under “property, plant and equipment” on our consolidated statements of financial position (depending on whether the relevant project is being developed for sale; for investment or hotel operation purposes) to the extent that such costs are directly attributable to the construction of a project. In general, we capitalize finance costs incurred from the commencement of the planning and design of a project, which typically precedes the receipt of a construction permit, until the completion of construction. For any given project, finance costs incurred after the end of the month in which construction on the project is completed are not capitalized, but are instead accounted for in our consolidated income statements as finance costs in the period in which they are incurred.

Other Income and Gains

Other income and gains comprise net gains on the disposal of our investment properties, interest income on bank deposits, net foreign exchange differences, and miscellaneous income, including revenue from clubhouses and other facilities in our residential projects. Upon the disposal of an investment property, the difference between the net proceeds and the carrying value is accounted for as a gain or loss on the disposal of an investment property and is recorded on our consolidated income statements under “other income and gains.”

Selling and Marketing Costs

Selling and marketing costs include advertising and promotional expenses relating to sales and rental of our properties (including advertisements on television and in newspapers, magazines, on billboards, promotional offers made directly to our customers and certain other promotional events), selling and marketing staff costs and other selling expenses. Our selling and marketing costs in any period are affected by the proportion of newly-introduced developments in our portfolio in that period. We expect our selling and marketing costs to continue to increase, as we have multiple projects which we expect to be released to the market on a rolling basis in the near future. Furthermore, we may be required to incur additional selling and marketing costs when we enter into a new market as part of our efforts to develop our brand in those markets.

Administrative Expenses

Administrative expenses include primarily administrative staff costs, travelling and entertainment expenses, other professional fees, and general office expenses.

Fair Value Gains (Losses) on Investment Properties

Investment properties are interests in land and buildings held to earn recurring income and/or for capital appreciation. In 2007 and 2008, before the completion of construction of these properties, such interests were recorded as non-current assets under “land use rights” or “assets under construction” under “property, plant and equipment” on our consolidated statements of financial position and, upon their completion, were transferred to investment properties on our consolidated statements of financial position. In 2009, due to a change in accounting policies, such interests were recorded as non-current assets under “investment properties” on our consolidated statements of financial position. “properties under development” on our consolidated statements of financial position represent the properties that we are developing for sale and do not include any investment properties. Our investment properties currently comprise commercial properties held for rental purposes and/or for capital appreciation, including office building, retail properties and car park spaces. With regard to retail properties and car park spaces on a residential project, we treat some of them as investment properties upon the completion of such properties. However, we have the discretion to sell these retail properties and car park spaces when we believe sales will generate more economic return. Once a retail property or a car park space is sold, it is excluded from our investment properties. The gains on disposals of these investment properties are recognized as “other income and gains”, and the losses on disposal of such properties are recognized as “other operating expenses, net.”

Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statements in the year in which they arise. Our investment properties were revalued by CB Richard Ellis Limited as of December 31, 2008, 2009 and 2010, respectively, on an open market, existing use basis which reflected market conditions at those dates. Based on such valuation, we recognized the aggregate fair market value of our investment properties on our consolidated statements of financial position, recognized fair value gains or losses on investment properties on our consolidated income statements and recognized the relevant deferred tax under “income tax expenses” on our consolidated income statements.

As of December 31, 2008, 2009 and 2010, the fair value of our investment properties was RMB3,546.4 million, RMB3,501.5 million and RMB3,462.0 million (US\$524.5 million), respectively. For 2008, 2009 and 2010, the fair value gains/(losses) on our investment properties were RMB(23.6) million, RMB60.6 million and RMB3.9 million (US\$0.6 million), respectively, and the relevant deferred tax for these fair value gains charged under “income tax expenses/(credits)” on our consolidated income statements were RMB(5.9) million, RMB15.1 million and RMB1.0 million (US\$0.2 million), respectively. Accordingly, for the same periods, net fair value gains (losses), net of deferred tax, on our investment properties were RMB(17.7 million), RMB45.5 million and RMB2.9 million (US\$0.4 million).

For 2008, our net fair value loss was primarily due to the rapid decline in the PRC property market and lack of new significant investment properties. Our net fair value gains in 2009 increased to RMB60.6 million primarily as a result of our additional investment properties in Guangzhou. For 2009, the net fair value gains, net of deferred tax, represented approximately 6.3% of our profit for the year. We reported net fair value gains on investment properties, net of deferred tax, of RMB2.9 million (US\$0.4 million) for the year ended December 31, 2010, which represented approximately

0.2% of our profit for the year. Our net fair value gains in 2010 decreased by approximately 93.6% primarily because we had no new significant investment properties in 2010 and the market value of our investment properties in 2010 remained relatively stable.

The fair value of each of our investment properties is likely to fluctuate from time to time and the fair value of our investment properties may decrease significantly in the future. Any such decrease in the fair value of our investment properties would reduce our profits. See “Risk Factors — Risks Relating to Our Business — The fair value of our investment properties is likely to fluctuate from time to time and may decrease significantly in the future, which may materially and adversely impact our profitability.”

Finance Costs

Finance costs consist primarily of interest costs on bank loans net of capitalized borrowing costs. We capitalize a portion of our costs of borrowings to “properties under development” or to “assets under construction” under “property, plant and equipment” or to “investment property under construction” under “investment properties” on our consolidated statements of financial position (depending on whether the relevant project is being developed as for sale or for investment purposes) to the extent that such costs are directly attributable to the construction of a project. Finance costs fluctuate from period to period due primarily to fluctuations in our level of outstanding indebtedness and the interest rates on such indebtedness. Since the development period for a property development does not necessarily coincide with the repayment period of the relevant loan, not all of the interest costs related to a property development can be capitalized. As a result, the period to period fluctuation of our finance costs is also attributable to the amount and timing of capitalization. See “— Cost of Sales — Capitalized Borrowing Costs.”

Share of Profit and Loss of Associates

Share of profit and loss of associates represents our profit or loss after tax that is attributable to our interest in associates pursuant to the joint venture agreement. As of December 31, 2010, our associates were Suzhou City Kaiyu Real Estate Development Company Limited, Garry Limited, Bonserry Investments Limited, Foshan City Xinjun Real Estate Development Co., Ltd., Foshan City Xinhao Real Estate Development Co., Ltd., Foshan City Xinhui Real Estate Development Co., Ltd., Foshan City Xinjing Real Estate Development Co., Ltd., Lyntondale Holdings Limited, Channel Win Investment Limited, Foshan City Xinsheng Real Estate Development Co., Ltd., Foshan City Xinfeng Real Estate Development Co., Ltd., Foshan City Xinjin Real Estate Development Co., Ltd., Guangzhou City Wanjing Property Development Co., Ltd. and Shanghai Jingdong Property Development Limited.

Share of Profits and Losses of Jointly-controlled Entities

Share of profits and losses of jointly-controlled entities represents our profits or losses after taxation that is attributable to our interests in jointly-controlled entities pursuant to the joint venture agreements. As of December 31, 2010, our jointly-controlled entities were Guangzhou Weibai Real Estate Development Limited, Precious Wave Investments Limited, Quality Express Limited, Guangzhou Fujing Real Estate Development Limited, Shanghai Zhendong Property Development Co., Ltd., Tianjin Jinnan New Town Real Estate Development Co., Ltd., Tianjin He’an Investments Co., Ltd., Hines Shanghai New Jiang Wan Development Co., Ltd., Shanghai Chengtou Yuecheng Real Estate Company Limited, Chengdu Premium Property Development Ltd., Central Path Limited, Ideal City Investments Limited, Total Champ Limited and Great Command Investments Limited.

Income Tax Expenses

Our tax expenses for a given year include PRC corporate income tax and LAT during the period. For 2008, 2009 and 2010, our effective tax rate (income tax expenses divided by profit before tax) was 47.9%, 43.2% and 48.9%, respectively. Our effective tax rate is affected by, among other things, the LAT we are required to make.

PRC Corporate Income Tax

Income tax expense represents PRC corporate income tax liabilities accrued by our operating subsidiaries. The PRC corporate income tax has been calculated at the applicable tax rate on the assessable profits for each of 2008, 2009 and 2010. Before January 1, 2008, the corporate income tax rate generally applicable in the PRC was 33%. According to the PRC Enterprise Tax Law enacted by the National People's Congress on March 16, 2007, which became effective on January 1, 2008, a uniform income tax rate of 25% has been applied towards foreign investment and foreign enterprises which have set up production and operation facilities in the PRC. We are subject to tax at the new uniform income tax rate.

LAT

Under PRC laws and regulations, our PRC subsidiaries that are engaged in the property development business are subject to LAT, as determined by the local authorities in the location in which each project is located.

LAT Calculation. All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, as defined in the relevant tax laws. Certain exemptions are available for the sale of ordinary residential properties if the appreciation value does not exceed 20% of the total deductible items (as defined in the relevant tax laws). Sales of commercial properties are not eligible for such an exemption. Whether a property qualifies for the ordinary residential property exemption is determined by the local government, taking into consideration the property's plot ratio, aggregate GFA and sales price. Sales of higher-end properties and commercial properties are generally assessed at higher appreciation values, and are therefore generally subject to higher LAT rates.

LAT Provision. During 2008, 2009 and 2010, we generated sales from various projects. Our Guangzhou properties and all of our other projects currently under development or held for future development are subject to the regular LAT obligation at progressive rates between 30% and 60%. We estimate and make provisions for what we believe to be the full amount of applicable LAT in accordance with the requirements set forth in the relevant PRC tax laws and regulations. For 2008, 2009 and 2010, we have provided for LAT in the amount of RMB197.6 million, RMB351.2 million and RMB694.2 million (US\$105.2 million), respectively. Because we are only permitted to deduct our LAT provisions for corporate income tax purposes when the relevant LAT is paid, we recognize deferred tax assets on our consolidated statements of financial position to the extent that we have made provision for LAT on properties sold or pre-sold, in each case until such time as the related LAT payments are made.

LAT Prepayment. Effective from January 1, 2005, the Guangzhou local tax bureau has required prepayment of LAT on pre-sale and sale proceeds of property developments on a quarterly basis. The applicable prepayment rates, as a percentage of pre-sale and sale proceeds of the previous quarter, are 0.5% for ordinary residential properties, 0.7% for residential and commercial complexes

and 1% for other types of properties. Effective from January 1, 2008, the Guangzhou local tax bureau has changed the applicable prepayment rates of LAT. The applicable prepayment rates, as a percentage of pre-sale and sale proceeds, are 1% for ordinary residential properties and 2% for other types of properties. For the years ended December 31, 2008 and 2009, we made LAT prepayments in the amount of RMB36.1 million and RMB62.2 million, respectively. The Guangzhou local tax bureau further increased the applicable prepayment rates of LAT, effective from July 1, 2010. The prepayment rates are 2% for ordinary residential properties, 3% for non-ordinary residential properties and 4% for villas. While the prepayment rates are 2% for office buildings and 4% for commercial business properties. For the year ended December 31, 2010, we made LAT prepayments in the amount of RMB189.3 million (US\$28.7 million).

LAT Enforcement. On December 28, 2006, the PRC State Administration of Taxation issued a circular, which took effect on February 1, 2007. Under this circular, LAT must be settled if any of the following criteria is met: (1) the property development project has been completed and fully sold; (2) the property developer transfers the whole development project prior to completion; or (3) the land use rights with respect to the project are transferred. In addition, the relevant tax authorities may require the developer to settle its LAT obligations if any of the following criteria is met:

- for completed property development projects, the GFA transferred to buyers represents more than 85% of total saleable GFA of the relevant project, 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 presale permit;
- the developer applies for cancellation of tax registration without having settled the relevant LAT obligations; or
- other conditions stipulated by the tax authorities.

On May 19, 2010, the State Administration of Taxation issued the Circular on Issues Concerning Settlement of Land Appreciation Tax (關於土地增值稅清算有關問題的通知) which clarifies the method of revenue recognition in the settlement of land value-added tax and other relevant issues. According to the Circular, in the settlement of land value-added tax, if the sales invoices of commodity houses are issued in full, the revenue shall be recognized based on the amount indicated in the invoices. If the sales invoices of commodity houses are not issued or are issued in part, the revenue shall be recognized based on the purchase price indicated in the sales contract as well as other income. If the area of a commodity house specified in a sales contract is inconsistent with the result obtained by the relevant authorities after on-site survey and the purchase price is made up or returned before the settlement of land value-added tax, adjustments shall be made in the calculation of land value-added tax. The Circular provides that the deed tax paid by a real estate development enterprise for land use right shall be treated as the “relevant fees paid in accordance with the uniform regulations of the state” and be deducted from the “amount paid for land use right.”

On May 25, 2010, the PRC State Administration of Taxation published the Circular on Strengthening the Collection and Administration of Land Value Increment Tax (關於加強土地增值稅徵管工作的通知, “Circular”) to require all local government to scientifically formulate the tax ratio and strengthen the pre-tax of land value increment tax. According to the Circular, all local government shall made adjustments to the current pre-tax ratio. In addition to safeguarding

housing, the pre-tax ratio of provinces in the eastern region shall not be lower than 2%, while the provinces in middle and northeastern region shall not be lower than 1.5% and the provinces in western region shall not be lower than 1%; and the local government shall determine the pre-tax ratio applicable to different types of real estate.

For projects developed in different phases, the LAT must be settled upon the completion of each phase. Local authorities, including the Guangzhou tax bureau, are required to issue regulations in compliance with the circular in consideration of local conditions. Our final LAT clearance and settlement in respect of any given property development project can be determined and made according to the requirements of the circular, or as and when requested by the relevant tax authorities. The relevant tax authorities have not yet notified us to commence final LAT clearance and settlement in respect of any of our property development projects. We believe we have made LAT prepayment and provision in accordance with all relevant PRC tax laws and regulations. Nevertheless, we cannot assure you that our LAT provisions are sufficient to cover our LAT obligations or that the tax authorities will agree with the basis on which we calculate our LAT obligations. In addition, our cash flows may be materially and adversely affected should the Guangzhou tax bureau require us to make immediate LAT settlement payments in respect of properties that we have developed.

As we are planning to continue to expand our property developments outside Guangzhou, we are subject to LAT as implemented by the local tax authorities in our new markets and we cannot assure you that any LAT obligations we calculate and provide for in respect of properties in these new markets will be sufficient to cover the LAT obligations which the local tax authorities ultimately impose on us.

Deferred Tax

We provided for deferred tax, using the liability method, on temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantially enacted by the balance sheet date are used to determine the deferred tax.

We provided for deferred tax liabilities, including the taxable temporary differences arising on fair value gains on investment properties, in full while deferred tax assets are recognized to the extent that it is probable that future profit will be available against which the temporary differences can be utilized. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Hong Kong and Cayman Islands Tax

We have not made any provision for Hong Kong profits tax as we had no assessable profit in Hong Kong during 2008, 2009 and 2010. Furthermore, based on the Cayman Islands' tax regulations, we are not subject to Cayman Islands income tax because we operate as an exempted company.

Results of Operations

The following table sets forth, for the periods indicated, certain items derived from our consolidated income statements and their respective percentages of our total revenue.

	Year Ended December 31,						
	2008		2009		2010		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Revenue	1,574,214	100.0%	4,266,572	100.0%	7,465,911	1,131,199	100.0%
Cost of sales	(746,413)	(47.4%)	(2,650,267)	(62.1%)	(4,368,278)	(661,860)	(58.5%)
Gross profit	827,801	52.6%	1,616,305	37.9%	3,097,633	469,339	41.5%
Other income and gains	150,644	9.6%	49,265	1.2%	78,893	11,953	1.1%
Selling and marketing costs	(89,514)	(5.7%)	(188,494)	(4.4%)	(242,805)	(36,789)	(3.3%)
Administrative expenses	(170,908)	(10.9%)	(281,988)	(6.6%)	(413,836)	(62,702)	(5.5%)
Other operating expenses, net	(1,758)	(0.1%)	(42,183)	(1.0%)	(5,356)	(812)	(0.1%)
Fair value gains/(losses) on investment properties, net	(23,569)	(1.5%)	60,587	1.4%	3,869	586	0.1%
Finance costs	—	—	(9,024)	(0.2%)	(19,974)	(3,026)	(0.3%)
Share of profits and losses of:							
Associates	—	—	(10)	(0.0%)	(2,246)	(340)	(0.0%)
Jointly-controlled entities	10,582	0.7%	65,024	1.5%	11,485	1,740	0.2%
Profit before tax	703,278	44.7%	1,269,482	29.8%	2,507,663	379,949	33.6%
Income tax expenses	(337,108)	(21.4%)	(548,025)	(12.8%)	(1,225,889)	(185,741)	(16.4%)
Profit for the year	<u>366,170</u>	23.3%	<u>721,457</u>	16.9%	<u>1,281,774</u>	<u>194,208</u>	(17.2%)

2010 Compared to 2009

Revenue. Our revenue increased by 75.0% to RMB7,465.9 million (US\$1,131.2 million) in 2010 from RMB4,266.6 million in 2009, primarily due to the increase of total GFA delivered in sales of properties in 2010.

- Property Development.* Revenue generated from property development increased by 75.7% to RMB7,221.1 million (US\$1,094.1 million) in 2010 from RMB4,110.0 million in 2009, primarily attributable to a 53.8% increase in total GFA delivered of 784,116 sq.m. in 2010 from 509,834 sq.m. in 2009. The increase in the total GFA delivered in 2010 was principally due to the increase in the completion and delivery of projects in other high growth cities. The increase in revenue generated from property development was also attributable to an increase in the recognized average selling price of the properties we sold in 2010. The recognized average selling price of our properties increased by 14.2% to RMB9,209.0 (US\$1,395.3) per sq.m. in 2010 from RMB8,061.0 per sq.m. in 2009, because our sales portfolio in 2010 included mid- to high-end residential GFA with relatively higher average selling price as compared to 2009 and because properties sold were located in cities with relatively higher average selling prices.
- Property Investment.* Revenue generated from property investment increased by 25.8% to RMB124.2 million (US\$18.8 million) in 2010 from RMB98.7 million in 2009, primarily attributable to an increase in total GFA of our rental area leased in International Finance Place in 2010, as well as 2010 being the first full year in which rental income was generated from certain tenants.

- *Hotel Operation.* Revenue generated from hotel operations increased by 469.0% to RMB56.9 million (US\$8.6 million) in 2010 from RMB10.0 million in 2009, mainly because 2010 was the first full year in which we generated hotel operation income from our hotel, Four Points by Sheraton Guangzhou, Dongpu.
- *Property Management.* Revenue generated from the provision of property management services increased by 33.0% to RMB63.7 million (US\$9.7 million) in 2010 from RMB47.9 million in 2009, primarily attributable to an increase in the number of properties under management. In addition, 2010 was the first full year where we provided property management services for certain projects.

Cost of Sales. Cost of sales increased by 64.8% to RMB4,368.3 million (US\$661.9 million) in 2010 from RMB2,650.3 million in 2009, primarily due to an overall increase in the cost of properties sold as a result of the increase in total GFA delivered in 2010. Land cost per sq.m. increased to RMB1,759.0 (US\$266.5) for the year ended December 31, 2010, from RMB1,222.0 in 2009, principally due to the recognized land costs of projects at better locations with relatively higher land costs. Construction cost per sq.m. decreased from RMB3,708.0 for the year ended December 31, 2009 to RMB3,507.0 (US\$531.4) for the year ended December 31, 2010 principally due to cost control mechanisms we implemented in 2010.

Gross Profit. Gross profit increased by 91.6% to RMB3,097.6 million (US\$469.3 million) in 2010 from RMB1,616.3 million in 2009. The increase in gross profit was principally due to the increase in total revenue and recognized average selling price of our properties in 2010. Our gross profit margin increased to 41.5% in 2010 from 37.9% in 2009. The increase in gross profit margin was mainly due to the sales and delivery of properties with higher recognized average selling prices in 2010 compared to 2009.

Other Income and Gains. Other income and gains increased by 60.0% to RMB78.9 million (US\$12.0 million) in 2010 from RMB49.3 million in 2009, primarily due to an increase in bank interest income by 373.9% and an increase in others by 87.4%. This increase was partially offset by a decrease in recognized net exchange gains by 49.2% to RMB12.5 million (US\$1.9 million) in 2010 from RMB24.6 million in 2009. In 2010, other income and gains mainly comprised bank interest income of approximately RMB33.5 million (US\$5.1 million) and others of approximately RMB32.9 million (US\$5.0 million).

Selling and Marketing Costs. Our selling and marketing costs increased by 28.8% to RMB242.8 million (US\$36.8 million) in 2010 from RMB188.5 million in 2009, which was primarily due to an increase of 18.1% in advertising expenses to RMB123.3 million (US\$18.7 million) in 2010 from RMB104.4 million in 2009, largely attributable to increased advertising for our new projects, such as Chengdu Cosmos in Chengdu, The Sapphire in Suzhou, Fragrant Seasons in Beijing, International Creative Valley and The Summit in Guangzhou. The increase in selling and marketing costs was also due to the increase in sales commission fees which was in line with the increase in revenue generated from sales of properties in 2010.

Administrative Expenses. Our administrative expenses increased by 46.7% to RMB413.8 million (US\$62.7 million) in 2010 from RMB282.0 million in 2009, primarily attributable to an increased headcount in line with our rapid development. The first full year of operation of our hotel property Four Points by Sheraton Guangzhou, Dongpu and the increase of other tax and surcharges on sales of properties also contributed to the increase in administrative expenses in 2010.

Other Operating Expenses, Net. Other operating expenses, net decreased by 87.2% in 2010 at RMB5.4 million (US\$0.8 million) as compared to RMB42.2 million in 2009, primarily as a result of a decrease in losses on the disposal of certain investment properties.

Fair Value Gains on Investment Properties, Net. During the year 2010, there was no new investment property project and the market value of the Group's existing investment properties remained stable, therefore there was no significant fair value gains on investment properties for the Group. We reported net fair value gains on investment properties of RMB3.9 million (US\$0.6 million) in 2010, mainly related to fair value gains on the leasable portion of International Finance Place. We incurred net fair value gains on investment properties of RMB60.6 million in 2009, mainly in relation to fair value gains on the leasable portion of International Creative Valley in Guangzhou.

Finance Costs. Finance costs increased to RMB20.0 million (US\$3.0 million) in 2010 from RMB9.0 million in 2009. Finance costs in 2010 were primarily related to borrowing costs on certain general corporate loans. Since such loans were not earmarked for project development, such borrowing costs have not been capitalized.

Share of Profits and Losses of Jointly-controlled Entities. Share of profits of jointly-controlled entities decreased by 82.3% to RMB11.5 million (US\$1.7 million) in 2010 from RMB65.0 million in 2009, mainly due to a decrease in the total GFA delivered of Yucui Garden in 2010 compared to 2009.

Profit before Tax. Profit before tax increased by 97.5% to RMB2,507.7 million (US\$380.0 million) in 2010 from RMB1,269.5 million in 2009. As a percentage of revenue, profit before tax increased to 33.6% in 2010 from 29.8% in 2009, as a result of the cumulative effect of the foregoing factors.

Income Tax Expenses. Income tax expenses increased by 123.7% to RMB1,225.9 million (US\$185.7 million) in 2010 from RMB548.0 million in 2009, primarily due to an increase in profits for properties sold during 2010 and a corresponding increase in provisions for LAT as a result of such increase.

Profit for the Year. Profit for the year increased by 77.7% to RMB1,281.8 million (US\$194.2 million) in 2010 from RMB721.5 million in 2009. As a percentage of revenue, profit for the year increased to 17.2% in 2010 from 16.9% in 2009, as a result of the cumulative effect of the foregoing factors.

2009 Compared to 2008

Revenue. Our revenue increased by 171.0% to RMB4,266.6 million in 2009 from RMB1,574.2 million in 2008, primarily due to the increase of total GFA delivered in sales of properties in 2009.

- *Property Development.* Revenue generated from property development increased by 179.4% to RMB4,110.0 million in 2009 from RMB1,471.2 million in 2008, primarily attributable to a 281.8% increase in total GFA delivered of 509,834 sq.m. in 2009 from 133,531 sq.m. in 2008. The increase in the total GFA delivered in 2009 was principally due to the completion and delivery of three projects in 2009 that were under construction in 2008. The increase in revenue was partially offset by the decrease in the recognized average selling price of our properties sold. The recognized average selling price of

property decreased to RMB8,061.0 per sq.m. in 2009 from RMB11,017.8 per sq.m. in 2008 due to our sales portfolio comprising more mid-to high end residential GFA with relatively lower recognized average selling price in 2009 as compared to 2008.

- *Property Investment.* Revenue generated from property investment increased by 32.5% to RMB98.7 million in 2009 from RMB74.5 million in 2008, primarily as a result of an increase in total GFA of our rental area leased in International Finance Place in 2009, which was the first full year in which rental income was generated from certain tenants.
- *Hotel Operation.* In September 2009, we opened our first hotel property, Four Points by Sheraton Guangzhou, Dongpu. We reported hotel operation income of approximately RMB10.0 million for 2009. We had no hotel operation income for 2008.
- *Property Management.* Revenue generated from property management increased by 68.1% to RMB47.9 million in 2009 from RMB28.5 million in 2008, primarily due to an increase in the number of properties under management. In addition, 2009 was the first full year where we provided property management services to certain projects.

Cost of Sales. Cost of sales increased by 255.1% to RMB2,650.3 million in 2009 from RMB746.4 million in 2008, primarily due to an overall increase in cost of properties sold as a result of the increase in total GFA delivered in 2009. Construction cost per sq.m. decreased from RMB4,152.8 in 2008 to RMB3,707.5 in 2009, principally due to the increasing proportion of our construction of mid-end residential projects which have relatively lower construction costs. Land premium paid per sq.m. remained constant in both 2008 and 2009.

Gross Profit. Gross profit increased by 95.3% to RMB1,616.3 million in 2009 from RMB827.8 million in 2008. The increase in gross profit is primarily attributable to the increase in the total revenue in 2009. However, the increase of gross profit was partially offset by the decrease in recognized average selling price in 2009. Our gross profit margin decreased to 37.9% in 2009 from 52.6% in 2008. The decline in gross profit margin was mainly due to the increasing proportion of our sales and delivery of mid-to high end residential GFA, which have relatively lower average selling price and gross profit margin.

Other Income and Gains. Other income and gains decreased by approximately 67.3% to RMB49.3 million in 2009 from RMB150.6 million in 2008, primarily due to less recognized net exchange gains in 2009 as compared to 2008. In 2009, other income and gains mainly comprised interest income of approximately RMB7.1 million and net exchange gains of approximately RMB24.6 million.

Selling and Marketing Costs. Our selling and marketing costs increased by 110.6% to RMB188.5 million in 2009 from RMB89.5 million in 2008, primarily due to an increase of 62.9% in advertising expenses to RMB104.4 million in 2009 from RMB64.1 million in 2008, largely attributable to increased advertising for our new projects, such as The Emerald, Chengdu Cosmos and The Vision of the World in Chengdu, The Up Blue Town and The Sapphire in Suzhou, Fragrant Seasons in Beijing, The Apex, International Creative Valley and Zengcheng Summit in Guangzhou.

Administrative Expenses. Administrative expenses increased by 65.0% to RMB282.0 million in 2009 from RMB170.9 million in 2008, primarily due to an increased headcount in line with our rapid development. The opening of our Four Points by Sheraton Guangzhou, Dongpu and the increase of other tax and surcharges on sales of properties also contributed to the increase in 2009.

Other Operating Expenses, Net. Other operating expenses, net increased to RMB42.2 million in 2009 from RMB1.8 million in 2008. Other operating expenses, net in 2009 primarily comprised the losses on the disposal of investment properties of approximately RMB40.1 million, mainly due to the disposal of certain retail shops of Yuhua Garden. We did not incur any such losses in 2008.

Fair Value Gains on Investment Properties, Net. Net fair value gains on investment properties was RMB60.6 million for 2009, mainly related to fair value gains on the leasable portion of International Creative Valley in Guangzhou. We incurred net fair value losses of RMB23.6 million in 2008 primarily due to decrease in the fair value of International Finance Place.

Finance Costs. Finance costs increased substantially to RMB9.0 million in 2009 from nil in 2008. Finance costs in 2009 were primarily related to the borrowing costs on corporate loans. Since such loans were not earmarked for project development, such borrowing costs have not been capitalized.

Share of Profits and Losses of Jointly-controlled Entities. Share of profits of jointly-controlled entities increased to RMB65.0 million in 2009 from RMB10.6 million in 2008, mainly due to an increase in the total GFA delivered of Yucui Garden in 2009 as compared to 2008.

Profit before Tax. Profit before tax increased by 80.5% to RMB1,269.5 million in 2009 from RMB703.3 million in 2008. As a percentage of revenue, profit before tax decreased to 29.8% in 2009 from 44.7% in 2008, as a result of the cumulative effect of the foregoing factors.

Income Tax Expenses. Income tax expenses increased by 62.6% to RMB548.0 million in 2009 from RMB337.1 million in 2008, primarily due to an increase in profit attributable to the owners of the parent and provisions for LAT as a result of an increase in properties sold in 2009.

Profit for the Year. Profit for the year increased by 97.0% to RMB721.5 million in 2009 from RMB366.2 million in 2008. As a percentage of revenue, profit for the year decreased to 16.9% in 2009 from 23.3% in 2008, as a result of the cumulative effect of the foregoing factors.

Liquidity and Capital Resources

We intend to continue to fund our future development and debt servicing costs from existing financial resources and cash generated from operations. We may also raise additional funds through debt or equity offerings or sales or other dispositions of assets in the future to finance all or a portion of our future development, for debt servicing or for other purposes. We also finance some of our property developments with trust financing. See “Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements.” Our ability to obtain adequate financing to satisfy our debt service requirements may be limited by our financial condition and results of operations and the liquidity of international and domestic financial markets. Any failure by us to achieve timely rollover, extension or refinancing of our short-term debt may result in our inability to meet our obligations in connection with debt service, accounts payable and/or other liabilities when they become due and payable. See “Risk Factors — Risks Relating to Our Business — We may not have adequate financing to fund our land acquisitions and property projects.”

Cash Flows

The following table presents selected cash flow data from our consolidated statements of cash flows for 2008, 2009 and 2010.

	Year Ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
	(in thousands)			
Operating profit/(loss) before working capital changes ⁽¹⁾	657,563	1,204,645	2,539,062	384,706
Changes in working capital:				
(Increase)/decrease in properties under development	(3,168,278)	546,742	891,723	135,110
Increase in completed properties held for sale	(344,775)	(766,011)	(253,343)	(38,385)
(Increase)/decrease in trade receivables	3,907	(116,700)	99,726	15,110
(Increase)/decrease in prepayments, deposits and other receivables	(331,389)	692,980	(1,227,506)	(185,986)
(Increase)/decrease in amounts due from a jointly-controlled				
entity	(21,313)	3,315	844	128
Increase in restricted cash	(58,589)	(863,934)	(458,116)	(69,411)
Increase/(decrease) in trade payables	(857,469)	(1,165,043)	255,428	38,701
Increase in other payables and accruals	307,490	810,448	3,410,223	516,700
Increase in amount due to associates	—	129,956	312,426	47,337
Cash (used in)/generated from operations	(3,812,853)	476,398	5,570,467	844,010
Interest received	23,537	7,066	33,483	5,073
Interest paid	(377,845)	(486,963)	(663,258)	(100,494)
Taxes paid	(544,540)	(394,470)	(622,539)	(94,324)
Net cash flows from/(used in) operating activities	(4,711,701)	(397,969)	4,318,153	654,265
Net cash flows used in investing activities	(274,170)	(2,119,402)	(5,125,228)	(776,550)
Net cash flows from financing activities	2,968,898	3,925,268	3,544,265	537,010
Cash and cash equivalents	1,167,009	2,540,698	5,275,609	799,335

- (1) Represents profit before tax as adjusted for finance costs, share of profits and losses of associates, share of profits and losses of jointly-controlled entities, interest income, depreciation, amortization of land use rights, net changes in the fair values of investment properties, net gains (losses) on disposal of investment properties, gains (losses) on disposal of items of property, plant and equipment, and equity-settled share options expenses.

We had a net cash inflow from operating activities of RMB4,318.2 million (US\$654.3 million) in 2010. This net cash inflow was primarily due to (i) an increase in other payables and accruals of RMB3,410.2 million (US\$516.7 million) as a result of an increase in deposits received in advance from pre-sales of properties, (ii) a decrease in properties under development of RMB891.7 million (US\$135.1 million), mainly due to the increase in properties completed and delivered in 2010 and (iii) an increase in restricted cash of RMB458.1 million (US\$69.4 million), mainly due to an increase in pre-sales in 2010, partially offset by an increase in prepayments, deposits and other receivables of RMB1,227.5 million (US\$186.0 million), mainly due to the deposits placed for certain land acquisitions, including the Chengdu Jinjiang acquisition.

We had a net cash outflow from operating activities of RMB398.0 million for 2009, primarily due to: (i) a decrease in trade payables of RMB1,165.0 million, mainly due to the settlement of land premium and construction costs during the year, (ii) an increase in restricted cash of RMB863.9 million, mainly due to an increase in pre-sales in 2009, and (iii) an increase in completed properties held for sale of RMB766.0 million, partially offset by an increase in other payables and accruals of RMB810.4 million as a result of an increase in deposits received in advance from pre-sales of properties.

We had a net cash outflow from operating activities of RMB4,711.7 million for 2008, primarily due to: (i) an increase in properties under development of RMB3,168.3 million, mainly due to an increase in property development relating to Fragrant Seasons, (ii) a decrease in trade payables of RMB857.5 million, mainly due to the settlement of land premium and construction costs during the year relating to Waterfront Mansion and King Peak Garden, and (iii) an increase in completed properties held for sale of RMB344.8 million, mainly due to GFA pre-sold, completed but not yet delivered for Waterfront Mansion and King Peak Garden, partially offset by an increase in other payables and accruals of RMB307.5 million as a result of an increase in deposits received in advance from pre-sales of properties.

Cash Flows From Investing Activities

The primary factors affecting net cash outflow from investing activities in 2010 were: (i) investments in jointly-controlled entities of RMB1,449.7 million (US\$219.7 million), principally relating to the investments in Tianjin Jinnan Project, Chengdu Jinjiang Project and Shanghai Putuo Project, (ii) acquisition of jointly-controlled entities of RMB1,177.3 million (US\$178.4 million) as a result of our acquisition of the Shanghai New Jiang Wan Project and (iii) investments in associates of RMB705.0 million (US\$106.8 million), principally relating to the Suzhou Apex Project.

The primary factors affecting net cash outflow from investing activities in 2009 were: (i) acquisition of non-controlling interests of RMB716.0 million as a result of our acquisition of an additional 35% equity interest of Chengdu projects during 2009, (ii) purchases of items of property, plant and equipment of RMB548.9 million, principally relating to increases in construction costs for hotels, and (iii) investment in associates of RMB499.0 million related to Suzhou Apex, partially offset by a cash inflow of RMB77.3 million relating to proceeds from the disposal of certain of our investment properties.

The primary factors affecting net cash outflow from investing activities in 2008 were: (i) purchases of items of property, plant and equipment of RMB222.1 million, principally relating to increases in construction costs for hotels, and (ii) increase in long term prepayment of RMB165.1 million primarily due to land premium paid in connection with Lie De project, partially offset by a cash inflow of RMB125.7 million relating to proceeds from the disposal of certain of our investment properties.

Cash Flows From Financing Activities

The primary factors affecting net cash inflow from financing activities in 2010 were: new bank loans of RMB6,179.2 million (US\$936.2 million), primarily for the financing of construction costs for various projects and (ii) proceeds from the issue of our 2010 Notes of RMB1,617.3 million (US\$245.2 million). Cash inflows from financing activities were partially offset in 2010 by a cash outflow of RMB4,117.6 million (US\$623.9 million) in respect of repayment of bank loans.

The primary factors affecting net cash inflow from financing activities in 2009 were: (i) new bank loans of RMB5,471.0 million, primarily for the financing of construction costs; and (ii) proceeds of RMB1,348.7 million from issue of an aggregate of 300,000,000 ordinary shares at HK\$5.10 each. Cash inflows from financing activities were partially offset in 2009 by a cash outflow of RMB2,788.1 million in respect of repayment of bank loans.

The primary factor affecting net cash inflow from financing activities in 2008 was new bank loans of RMB3,816.5 million, primarily for the financing of construction costs. Cash inflows from financing activities were partially offset in 2008 by (i) a cash outflow of RMB458.5 million in respect of repayment of bank loans, and (ii) a cash outflow of RMB389.1 million in respect of dividends paid.

Bank loans and other borrowings

Our net borrowings (total bank loans and other borrowings less cash and cash equivalents and restricted cash) as of December 31, 2008, 2009 and 2010, respectively, were as follows:

	As of December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
	(in thousands)			
Bank loans and other borrowings included in non-current liabilities				
Long-term bank loans — secured	3,489,817	6,030,682	8,811,325	1,335,049
Long-term bank loans — unsecured	2,185,534	767,895	924,134	140,020
2010 Notes — secured	—	—	1,618,331	245,202
Less: Amounts due within one year.	(740,098)	(719,725)	(1,303,834)	(197,551)
Bank loans included in current liabilities				
Short-term bank loans — secured	179,241	408,210	977,840	148,158
Short-term bank loans — unsecured	139,589	1,438,693	—	—
Current portion of long-term bank loans	740,098	719,725	1,303,834	197,551
Total	5,994,181	8,645,480	12,331,630	1,868,429
Cash and cash equivalents	1,167,009	2,540,698	5,275,609	799,335
Restricted cash	205,942	1,069,876	1,527,992	231,514
Net borrowings	4,621,230	5,034,906	5,528,029	837,580

The maturity of our bank loans and other borrowings as of December 31, 2008, 2009 and 2010, that were included in non-current liabilities were as follows:

	As of December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
	(in thousands)			
Bank loans repayable				
Between 1 and 2 years	1,058,928	2,566,628	2,281,674	345,708
Between 2 and 5 years	4,751,706	5,242,382	7,724,625	1,170,398
Over 5 years	183,547	836,470	707,000	107,121
Total bank loans repayable	5,994,181	8,645,480	10,713,299	1,623,227
2010 Notes				
Beyond 5 years	—	—	1,618,331	245,202
Total bank loans and 2010 Notes repayable	5,994,181	8,645,480	12,331,630	1,868,429

The carrying amounts of all our bank loans and other borrowings as of December 31, 2008, 2009 and 2010 were denominated in the following currencies:

	As of December 31,						
	2008		2009		2010		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentage)						
RMB.....	5,078,772	84.7%	7,580,094	87.7%	8,865,567	1,343,268	71.9%
HK\$.....	915,409	15.3%	1,065,386	12.3%	1,252,086	189,710	10.1%
US\$.....	—	—	—	—	2,213,977	335,451	18.0%
Total.....	<u>5,994,181</u>	<u>100%</u>	<u>8,645,480</u>	<u>100%</u>	<u>12,331,630</u>	<u>1,868,429</u>	<u>100%</u>

As of December 31, 2010, our total bank loans amounted to RMB10,713.3 million (US\$1,623.2 million), of which RMB2,281.7 million (US\$345.7 million) and RMB8,431.6 million (US\$1,277.5 million) are classified under current liabilities and non-current liabilities respectively. As of December 31, 2010, we also had senior notes represented by our 2010 Notes that amounted to RMB1,618.3 million (US\$245.2 million), which are classified as non-current liabilities. On February 9, 2011, we entered into a secured and guaranteed three year term loan facility with an aggregate principal amount of up to HK\$195.0 million (US\$25.0 million) (based on the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars of US\$1.00 = HK\$7.7810 as of December 31, 2010) with SCB. For a more detailed discussion of our material indebtedness and other obligations, see “Description of Material Indebtedness and Other Obligations.”

Restricted Cash

In line with the industry practice, our project companies are required to deposit all proceeds from pre-sales of properties into designated bank accounts as guarantees for the completion of construction. Before construction of the pre-sold properties is completed, such deposits may only be used, with the prior approval of the relevant local authorities, for purchasing construction materials, equipment, making interim construction payments and paying taxes, in each case in respect of the project from which such pre-sale proceeds were received. As of December 31, 2008, 2009 and 2010, such guarantee deposits amounted to approximately RMB205.9 million, RMB1,069.9 million and RMB1,528.0 million (US\$231.5 million), respectively.

As of December 31, 2010, certain of our time deposits of RMB67.6 million (US\$10.2 million) were pledged to secure general banking facilities granted to us.

Gearing Ratio

Gearing ratio is calculated as net borrowings (total bank loans and senior notes net of cash and cash equivalents and restricted cash) divided by total equity. As of December 31, 2008 and 2009, our gearing ratios were 50.3% and 48.4%, respectively. The gearing ratio decreased in 2009 as compared to 2008, mainly due to the issuance of new shares. As of December 31, 2010, our cash and cash equivalents amounted to RMB5,275.6 million (US\$799.3 million). As of December 31, 2010, our gearing ratio was 47.7%. The decrease in gearing ratio in 2010 was primarily attributable to an increase in cash and cash equivalents and restricted cash in 2010 as compared to 2009.

Contingent Liabilities

As of December 31, 2010, we provided guarantees to banks for loans of approximately RMB6,160.6 million (US\$933.4 million) in respect of mortgage loans provided by lending banks to purchasers of the properties we developed and sold. Our guarantees are issued from the dates of

grant of the relevant mortgage loans and released upon issuance of property ownership certificates, which are generally available within one to two years after the purchasers take possession of the relevant properties.

As of December 31, 2010, we provided guarantees of approximately RMB460.0 million (US\$69.7 million) in respect of bank loans granted to an associate and a jointly-controlled entity.

As of December 31, 2010, we had provided guarantees of RMB900.0 million (US\$136.4 million) in respect of a trust financing arrangement for a jointly-controlled entity.

As of December 31, 2010, we had provided a guarantee in respect of a bank loan of RMB700.0 million (US\$106.1 million) as part of the consideration for the acquisition of Guangzhou Lihe.

Contractual Obligations

Our contractual obligations in connection with our property development activities primarily arise from contracted construction fees or other capital commitments for future property developments. The following table sets forth our contractual obligations as of the dates indicated.

	As of December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
	(in thousands)			
Operating lease arrangements:				
Office premises	3,319	2,538	11,068	1,677
Other commitments contracted but not provided for:				
Property, plant and equipment —				
Assets under construction ⁽¹⁾	301,444	451,210	507,343	76,870
Properties being developed for sale	2,146,067	2,276,794	1,722,853	261,038
Other commitments authorized but not contracted for:				
Investment in a jointly-controlled entity . . .	898,930	53,999	487,659	73,888
Total	<u>3,346,441</u>	<u>2,782,003</u>	<u>2,717,855</u>	<u>411,796</u>

(1) Assets under construction includes construction and related costs recorded in respect of our hotels that have not yet been completed.

Off-Balance Sheet Commitments and Arrangements

Except for the contingent liabilities set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. We do not have any variable interests in any uncombined entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

Market Risks

Interest Rate Risk

Our business is sensitive to fluctuations in interest rates. Our exposure to changes in interest rates is mainly attributable to our bank loans, especially long-term borrowings. Borrowings at variable rates expose us to interest rate risk. As of December 31, 2010, we had floating rate bank loans of RMB10,713.3 million (US\$1,623.2 million). As of the date of this offering memorandum, we have not used any interest rate swap to hedge our exposure to interest rate risk.

An increase in interest rates may also adversely affect prospective purchasers' ability to obtain financing and depress overall housing demand. Higher interest rates may adversely affect our revenue and profits. The PBOC benchmark one-year lending rates in China (which directly affects the property mortgage rates offered by commercial banks in the PRC) as of December 31, 2008, 2009 and 2010 were 5.31%, 5.31% and 5.81%, respectively and increased to 6.06% effective from February 9, 2011. We cannot assure you that the PBOC will not raise lending rates in the future or that our business, financial condition and results of operations will not be adversely affected as a result of these adjustments. See "Risk Factors — Risks Relating to Our Business — Our profitability and results of operations are affected by changes in interest rates."

Foreign Exchange Rate Risk

We conduct our sales and purchases almost exclusively in Renminbi except that a small portion of our sales proceeds are in other currencies. Our exposure to foreign exchange risk is principally due to our Hong Kong dollar-denominated debt and our bank deposits in foreign currencies, mainly Hong Kong dollars and U.S. dollars. With our issuance of US\$250,000,000 12.50% senior notes in August 2010, we are also exposed to foreign exchange risk relating to our U.S. dollar-denominated debt. See "Description of Material Indebtedness and Other Obligations — 2010 Notes." As of December 31, 2010, we had aggregate cash and bank balances (including restricted cash balances) of RMB6,803.6 million (US\$1,030.8 million), of which RMB586.9 million (US\$88.9 million) was denominated in Hong Kong dollars and RMB8.9 million (US\$1.3 million) was denominated in U.S. dollars.

We recognize foreign exchange gain or loss on our statement of comprehensive income due to changes in value of assets and liabilities denominated in foreign currencies during the relevant accounting period. Appreciation of the Renminbi against the U.S. and Hong Kong dollars generally results in a gain arising from our U.S. and Hong Kong dollar-denominated debts and a loss arising from our bank deposits in Hong Kong dollars and U.S. dollars. A depreciation of the Renminbi against the U.S. and Hong Kong dollars would have the opposite effect. In addition, a depreciation of Renminbi would negatively affect the value of dividends paid by our PRC subsidiaries, which may in turn affect our ability to service foreign currency-denominated debts.

Fluctuations in foreign exchange rates have had and will continue to have an impact on our business, financial condition and results of operations. See "Risk Factors — Risks Relating to the Notes — We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar." We may choose to use hedging transactions to reduce our exposure to foreign exchange rate fluctuations from time to time. For example, we may enter into non-speculative hedging or other derivative transactions, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

Inflation

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the China Statistical Bureau, China's overall national inflation rate, as represented by the general consumer price index, was approximately 4.8% and 5.9% in the years ended December 31, 2007 and 2008, respectively. Deflation could negatively affect our business as it would be a disincentive for prospective property buyers to make a purchase. In the year ended December 31, 2009, China experienced deflation of approximately 0.7%. As of the date of this offering memorandum, we had not been materially affected by any inflation or deflation.

Non-GAAP Financial Measures

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our earnings before the following items:

- fair value gains/losses on investment properties;
- other income and gains;
- share of profits and losses of associates and jointly-controlled entities;
- finance costs;
- income tax expenses;
- depreciation; and
- amortization.

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

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

The following table reconciles our profit for the year under HKFRS to our definition of EBITDA for the years indicated.

	Year Ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US\$
		(in thousands)		
Profit before tax	703,278	1,269,482	2,507,663	379,949
Adjustments:				
Fair value (gains)/losses on investment properties	23,569	(60,587)	(3,869)	(586)
Other income and gains	(150,644)	(49,265)	(78,893)	(11,953)
Share of profits and losses of:				
Associates	—	10	2,246	340
Jointly-controlled entities	(10,582)	(65,024)	(11,485)	(1,740)
Finance costs	—	9,024	19,974	3,026
Depreciation	8,638	16,716	32,712	4,956
Amortization	<u>618</u>	<u>810</u>	<u>1,415</u>	<u>215</u>
EBITDA	<u>574,877</u>	<u>1,121,166</u>	<u>2,469,763</u>	<u>374,207</u>

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year/period or as an indicator of operating performance or any other standard measure under HKFRS. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies. You should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See “Description of the Notes — Definitions” for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

Dividends

Subject to the Cayman Companies Law, through a general meeting we may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by the board. Our articles of association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid *pro rata* according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- our general business conditions;
- our financial results;
- our capital requirements;
- interests of our shareholders; and
- any other factors which the board may deem relevant.

Our directors will declare dividends, if any, in Hong Kong dollars with respect to shares on a per share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to our shareholders' approval.

Since December 31, 2010, we have not declared or distributed dividends to our shareholders.

INDUSTRY OVERVIEW

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

Overview of the PRC Economy

The PRC economy has grown significantly since the PRC government introduced economic reforms in the late 1970s. China's accession to the World Trade Organization in 2001 has further accelerated the reform of the PRC economy. Over the past five years, China's GDP has increased from approximately RMB15,988 billion in 2004 to approximately RMB33,535 billion in 2009 at a compound annual growth rate, or CAGR, of approximately 16.0%.

We believe the economic growth of China, the increase in disposable incomes, the emergence of the mortgage lending market, and the increase in urbanization rate are key drivers sustaining the growth of China's property market. Government housing reforms continue to encourage private ownership and it is assumed that the proportion of urban residents who own private properties will increase over the coming years.

The table below sets out selected economic statistics of China for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Population (millions)	1,300	1,308	1,314	1,321	1,328	1,335	0.5%
Nominal GDP (BMB billions)	15,988	18,322	21,192	25,731	30,067	33,535	16.0%
Real GDP growth (%)	10.1%	10.4%	11.6%	13.0%	9.0%	8.7%	N/A
CPI growth (%)	3.9%	1.8%	1.5%	4.8%	5.9%	-0.7%	N/A
Urban Population (millions)	542.8	562.1	577.1	593.8	606.7	621.9	2.8%
Urbanization (%)	41.8%	43.0%	43.9%	44.9%	45.7%	46.6%	N/A
Unemployment rate (%)	4.2%	4.2%	4.1%	4.0%	4.2%	4.3%	N/A
Per capita disposable income (RMB)	9,422	10,493	11,759	13,786	15,781	17,175	12.8%
Foreign Direct Investment (US\$ billions)	60.6	60.3	69.5	74.8	92.4	90.0	8.2%
Fixed Asset Investment (RMB billions)	7,048	8,877	11,000	13,732	17,283	22,485	26.1%
Real Estate Investment (RMB billions)	1,316	1,591	1,942	2,529	3,120	3,623	22.5%

Source: China Statistical Yearbooks 2004–2009, 2009 China National Economy and Social Development Communique

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 assets 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 "Regulations."

The PRC Real Estate Industry

Prior to the reform of the PRC property market in 1990s, the PRC real estate development industry was part of the nation’s centrally planned economy. In the 1990s, the PRC government initiated a number of housing reforms and, as a result, China’s real estate and housing sector began its transition to a market-based system. A brief timeline of key housing reforms is set out below:

Timeline of housing reforms

- 1988 The PRC government amended the national constitution to permit the transfer of state-owned land use rights
- 1992 Public housing sales in major cities commenced
- 1994 The PRC government implemented further reforms and established an employer/employee-funded housing fund
- 1995 The PRC government issued regulations regarding the sales and pre-sales of real estate, establishing a regulatory framework for real estate sales
- 1998 The PRC government abolished state-allocated housing policy; the Guangdong government issued regulations on the administration of pre-sales of commodity properties in Guangdong Province
- 1999 The PRC government extended the maximum mortgage term to 30 years. The PRC government increased the maximum mortgage financing from 70% to 80%. The PRC government formalized procedures for the sale of real property in the secondary market
- 2000 The PRC government issued regulations to standardize the quality of construction projects, establishing a framework for administering construction quality
- 2001 The PRC government issued regulations relating to sales of commodity properties
- 2002 The PRC government promulgated the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-For-Sale

The PRC government eliminated the dual system for domestic and overseas home buyers in China
- 2003 The PRC government promulgated rules for more stringent administration of real estate loans with a view to reducing the credit and systemic risks associated with such loans

The PRC State Council (the “State Council”) issued a notice for sustained and healthy development of the property market

- 2004 The State Council issued a notice requiring that, with respect to property development projects (excluding ordinary housing), the proportion of capital funds should be increased from 20% to 35%
- Ministry of Construction amended Administrative Measures on the Presale of Commercial Housing in Cities
- China Banking Regulatory Commission issued the Guideline for Commercial Banks on Risks of Real Estate Loans to further strengthen the risk control of commercial banks on real estate loans
- 2005 The PRC government instituted additional measures to discourage speculation in certain regional markets including, among others, increasing the minimum required down payment to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% for sales within two years of purchase, and prohibiting reselling unfinished properties before they are completed
- 2006 The PRC government implemented additional land supply, bank financing and other measures to curb fast increases in property prices, to encourage the development of middle- to low-end housing and to promote healthy development of the PRC property industry
- 2007 The PRC government issued regulations to increase the annual land use tax, and to impose such land use tax on foreign invested enterprises as well and to require that land use right certificates be issued only upon full payment of the land premium with respect to all of the land use rights under a land grant contract, which effectively stopped the practice of issuing land use right certificates in installments
- 2008 The PRC government took additional measures during the first half of the year to control money supply and discourage speculation in the residential property market, but took other measures during the second half of the year to combat the impact of the global economic downturn, to encourage domestic consumption in the residential property market and to support real estate development
- 2009 The PRC government reduced the minimum capital funding requirement for real estate development from 35% to 20% for ordinary commodity housing projects and affordable housing projects, and to 30% for other real estate projects

2010	In response to rising property prices across the country, the PRC government adjusted some of its policies in order to enhance regulation in the property market, restrain property purchases for investment or speculation purposes and keep property prices from rising too quickly in certain cities. Such policy adjustments include abolition of certain preferential treatment relating to business taxes payable upon transfers of residential properties by property owners, suspending grant of mortgage loans to non-residents who cannot provide any proof of local tax or social insurance payment for more than one year, and limiting the number of residential properties that one household can purchase in certain areas. The PRC government also clarified certain issues with respect to the calculation, settlement and collection of land appreciation tax in order to enforce the settlement and collection of land appreciation tax, and the criteria for commercial banks to identify the second housing unit when approving mortgage loans and imposition of more stringent requirements on the payment of land premium by property developers and increasing the down payment and loan interest rates for properties purchased with mortgage loans.
Beginning of 2011 to present	The PRC government implemented certain measures aimed at further reining in soaring property prices. These measures include further increasing the minimum down payment for second house purchases with high mortgage lending interest rate, imposing property tax in certain cities and levying business tax on the full transfer price arising from any transfer by individuals of residential property within five years upon their purchase of such residential property, in order to implement the Notice concerning Further Strengthening the Macroeconomic Control of Real Property Market, many cities have promulgated measures to limit the number of residential properties one household can newly purchase, such as Guangzhou, Tianjin, Beijing, Shanghai, Suzhou, Qingdao, Jinan, Chengdu and Foshan.

For additional information on housing reforms and recent regulatory developments with respect to China’s property industry, see “Regulations.”

The Property Market in China

The continued growth of China’s property industry is evidenced by the increase in both gross floor area sold and average selling prices over the period 2004–2009. According to CEIC Data Company Limited, the gross floor area of commodity properties sold in China has increased from approximately 453.6 million sq.m. in 2004 to 937.1 million sq.m. in 2009 representing a CAGR of 15.6%. At the same time, average selling prices for commodity properties in China have increased from approximately RMB2,778 per sq.m. in 2004 to RMB4,695 in 2009 representing a CAGR of 11.1%.

The same uptrend over this period is evident for both residential and commercial properties, as described below.

The gross floor area of residential properties sold in China has increased from approximately 397.2 million sq.m. in 2004 to 852.9 million sq.m. in 2009 representing a CAGR of 16.5%. The average selling price of residential properties have increased from approximately RMB2,608 per sq.m. in 2004 to approximately RMB4,474 per sq.m. in 2009 representing a CAGR of 11.4%.

The gross floor area of commercial properties sold in China has increased from approximately 39.8 million sq.m. in 2004 to 52.2 million sq.m. in 2009 representing a CAGR of 5.6%. The average selling price of commercial properties increased from approximately RMB3,966 per sq.m. in 2004 to approximately RMB6,896 per sq.m. in 2009, representing a CAGR of 11.7%.

The following table sets forth selected data relating to the PRC property market for the periods indicated.

	2004	2005	2006	2007	2008	2009	2004– 2009 CAGR
Investment in Real Estate (RMB in billions)	883.7	1,086	1,364	1,801	2,244	2,562	23.7%
Total GFA sold (sq.m. in millions)	453.6	554.9	618.6	773.5	659.7	937.1	15.6%
GFA of residential properties sold (sq.m. in millions) . . .	397.2	495.9	554.2	701.4	592.8	852.9	16.5%
GFA of commercial properties sold (sq.m. in millions)	39.8	40.8	43.4	46.4	42.1	52.2	5.6%
Average price of residential properties (RMB per sq.m.)	2,608	2,937	3,119	3,645	3,576	4,474	11.4%
Average price of commercial properties ⁽¹⁾ (RMB per sq.m.)	3,966	4,568	5,296	5,819	5,935	6,896	11.7%
Average price of commodity properties (RMB per sq.m.)	2,778	3,168	3,367	3,864	3,800	4,695	11.1%

Source: CEIC Data Company Limited

Note:

(1) These data are sourced from CRIC.

The Property Market in Guangdong Province

Guangdong Province is located in the southern part of China and comprises approximately 179,757 square kilometers in area. According to Guangdong Bureau of Statistics, as of the end of 2009, Guangdong Province had a permanent resident population of approximately 96.4 million. Guangdong Province has experienced substantial economic growth in the past 10 years. The real GDP growth rate of Guangdong Province exceeded the average national growth rate for each of the past 10 years and the per capita GDP of Guangdong Province was significantly higher than the national average.

The table below sets out selected economic statistics of Guangdong Province for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Population (millions)	91.1	91.9	93.0	94.5	95.4	96.4	1.1%
Nominal GDP (RMB in billions)	1,887	2,237	2,616	3,108	3,570	3,908	15.7%
Real GDP growth rate (%)	14.8%	13.8%	14.6%	14.7%	10.1%	9.5%	N/A
Per capita GDP (RMB)	20,876	24,438	28,284	33,151	37,589	40,748	14.3%
Per capita disposable income for urban households (RMB)	13,628	14,770	16,016	17,699	19,733	21,575	9.6%

Source: Guangdong Bureau of Statistics and CEIC Data Company Limited

According to CEIC Data Company Limited, in 2009, a total GFA of approximately 65.6 million sq.m. of residential properties was sold in Guangdong Province at an average selling price of RMB6,518 per sq.m. Over the period 2004–2009, residential GFA completed and residential GFA sold have increased by a CAGR of 6.7% and 19.1% respectively.

The table below sets out various statistics regarding the investment in, completion and sales of properties in Guangdong Province for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Total investment in property development (RMB in billions)	135.6	159.2	184.4	251.9	293.2	296.1	16.9%
Total GFA completed (sq.m. in millions)	34.1	43.9	43.1	42.7	43.6	47.0	6.6%
Total residential GFA completed (sq.m. in millions)	27.8	34.8	34.2	35.1	40.3	38.4	6.7%
Total commodity GFA sold (sq.m. in millions)	30.5	50.4	51.8	61.7	48.2	70.4	18.2%
Total residential GFA sold (sq.m. in millions)	27.4	45.5	46.9	56.1	43.6	65.6	19.1%

Source: CEIC Data Company Limited; 2004–2009 Guangdong Statistical Yearbook

The Property Market in Guangzhou

Guangzhou is the largest city in southern China and the capital city of Guangdong Province. According to Guangzhou Statistics Net and CEIC Data Company Limited, as of the end of 2009, Guangzhou had a permanent resident population of approximately 10.3 million. The city

experienced a high GDP growth rate for the six years from 2004 to 2009. In 2009, Guangzhou's GDP reached approximately RMB911.3 billion, representing a per capita GDP of approximately RMB88,834, ranking the third highest in the PRC.

The table below sets out selected economic statistics of Guangzhou for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Population (million)	9.7	9.5	9.8	10.0	10.2	10.3	1.2%
Nominal GDP (RMB in billions)	411.6	515.4	607.4	710.9	821.6	911.3	17.2%
Real GDP growth rate (%)	15.0%	12.9%	14.8%	14.9%	12.3%	11.5%	N/A
Per capita GDP (RMB)	56,271	69,268	63,100	71,808	81,223	88,834	9.6%
Per capita disposable income for urban household (RMB)	16,884	18,287	19,851	22,469	25,317	27,610	10.3%

Source: *Guangzhou Statistics Net and CEIC Data Company Limited*

Guangzhou is also one of the largest commercial centers in southern China. It serves as a transportation hub for southern China. A new international airport, the Guangzhou Baiyun International Airport, was officially opened in August 2004. The Guangzhou Baiyun International Airport is expected to support an annual capacity of approximately 25.0 million passengers and approximately 1.0 million tons of air freight by 2010.

According to CEIC Data Company Limited, in 2009, a total GFA of approximately 12.5 million sq.m. of residential properties was sold in Guangzhou at an average selling price of RMB8,988 per sq.m. Over the period 2004-2009, residential GFA sold and average selling price have increased by a CAGR of 9.6% and 14.2% respectively.

The table below sets out the total investment in property development, GFA of commodity properties completed, GFA of residential properties sold, and average selling price of residential properties in Guangzhou for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Total investment in property development (RMB in billions)	47.7	50.8	55.7	70.4	76.4	81.7	11.4%
Total GFA completed (sq.m. in millions)	12.1	13.6	14.5	15.0	9.4	9.6	(4.5%)
Total Residential GFA sold (sq.m. in millions)	7.9	11.3	11.6	11.6	8.8	12.5	9.6%
Residential ASP (RMB)	4,618	4,921	6,336	7,993	8,502	8,988	14.2%

Source: *CEIC Data Company Limited*

The Property Market in Foshan

Foshan is located in the central part of Guangdong Province, situated to the east of Guangzhou. According to Statistical Report on Foshan Domestic Economy and Social Development 2009 and CEIC Data Company Limited, as of the end of 2009, Foshan had a permanent resident population of approximately 6.0 million. The city experienced a high GDP growth rate for the six years from 2004 to 2009. In 2009, Foshan's GDP reached approximately RMB481.5 billion, representing a per capita GDP of approximately RMB80,579. The table below sets out selected economic statistics of Foshan for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Population (millions)	5.8	5.8	5.9	5.9	6.0	6.0	0.7%
Nominal GDP (RMB in billions)	165.4	238.0	292.7	358.9	433.3	481.5	23.8%
Real GDP growth rate (%)	16.3%	19.2%	19.3%	19.2%	15.2%	13.5%	N/A
Per capita GDP (RMB)	47,500	41,266	50,232	61,199	72,975	80,579	11.1%
Per capita disposable income for urban households (RMB)	16,045	17,424	18,894	21,112	22,494	24,578	8.9%

Source: 2004–2009 Foshan City National Economic and Social Development Report

According to the 2009 Statistics Report on Foshan Domestic Economy and Social Development, in 2009, a total GFA of approximately 7.8 million sq.m. of residential properties was sold in Foshan. Over the period 2004–2009, residential GFA sold has increased by a CAGR of 14.3%.

The table below sets out the total investment in property development, GFA of commodity properties completed, and GFA of residential properties sold in Foshan for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Total investment in property development (RMB in billions)	9.6	14.2	18.2	31.4	26.7	35.8	30.1%
Total GFA completed (sq.m. in millions)	5.3	4.7	4.4	4.6	3.2	2.4	(14.7%)
Total Residential GFA sold (sq.m. in millions)	4.0	4.8	6.1	6.9	5.4	7.8	14.3%

Source: 2004–2009 Foshan City National Economic and Social Development Report and CEIC Data Company Limited

The Property Market in Jiangsu Province

The Property Market in Suzhou

Suzhou is located at the south-east of Jiangsu Province. It is one of the central cities of the Yangtze River Delta. The city has a total area of 8,488 square kilometres, of which 1,650 square kilometres is urban area. The total population of Suzhou as of the end of 2009 was approximately 6.3 million. According to the 2009 Statistics Report on Suzhou Domestic Economy and Social Development, in 2009, Suzhou's GDP reached RMB774.0 billion, representing an increase of approximately 11.5% as compared to 2008. In 2009, net income per capita of Suzhou's urban population was RMB26,320, representing an increase of 10.3% over the previous year.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Population (millions).	6.0	6.1	6.2	6.2	6.3	6.3	1.0%
Nominal GDP							
(RMB in billions)	345.0	402.7	482.0	570.1	670.1	774.0	17.5%
Real GDP growth rate (%)	17.6%	15.3%	15.5%	16.0%	13.0%	11.5%	N/A
Per capita GDP ⁽¹⁾ (RMB)	57,992	66,766	78,802	91,911	106,863	N/A	16.5%
Per capita disposable income for urban households							
(RMB)	14,451	16,276	18,532	21,260	23,867	26,320	12.7%

Source: 2004–2009 Suzhou City National Economic and Social Development Report and Suzhou Statistical Year Book 2004–2009

Notes:

(1) 2004–08 CAGR

According to CEIC Data Company Limited and the Suzhou Statistics Bureau, in 2009, a total GFA of approximately 20.1 million sq.m. of residential properties was sold in Suzhou. The average selling price for residential properties in 2008 was RMB5,533 per sq.m. Over the period 2004–2009, residential GFA sold has increased by a CAGR of 26.1% and over the period 2004–2008, average selling price has increased by a CAGR of 16.9%.

The table below sets out the total investment in property development, GFA of commodity properties completed, GFA of residential properties sold, and average selling price of residential properties in Suzhou for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Total investment in property development (RMB in billions)	33.4	41.4	47.1	60.2	71.8	72.4	16.7%
Total GFA completed (sq.m. in millions)	11.3	16.0	14.4	16.0	14.8	18.8	10.7%
Total Residential GFA sold (sq.m. in millions)	6.3	9.7	11.9	16.5	8.3	20.1	26.1%
Residential ASP ⁽¹⁾ (RMB)	2,964	3,718	4,415	5,004	5,533	N/A	16.9%

Source: CEIC Data Company Limited

Notes:

(1) 2004–08 CAGR

The Property Market in Sichuan Province

The Property Market in Chengdu

Chengdu is the capital of Sichuan Province, located in the southwestern part of China. According to Statistical Report on Chengdu Domestic Economy and Social Development 2009, as of the end of 2009, Chengdu had a population of approximately 11.4 million. The city experienced a high GDP growth rate for the six years from 2004 to 2009. In 2009, Chengdu's GDP reached approximately RMB450.3 billion representing a per capita GDP of approximately RMB34,996. The table below sets out selected economic statistics of Chengdu for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Population (millions).	10.6	10.82	11.03	11.1	11.3	11.4	1.5%
Nominal GDP (RMB in billions)	218.6	237.1	275.0	332.4	390.1	450.3	15.5%
Real GDP growth rate (%)	13.6%	13.5%	13.8%	15.3%	12.1%	14.7%	N/A
Per capita GDP (RMB)	20,777	19,627	25,171	26,525	30,855	34,996	11.0%
Per capita disposable income for urban households (RMB)	10,394	11,359	12,789	14,989	16,943	18,659	12.4%

Source: Chengdu Statistics Bureau and CEIC Data Company Limited, Statistical Report on Chengdu Domestic Economy and Social Development 2009

According to CEIC Data Company Limited, in 2009, a total GFA of approximately 25.3 million sq.m. of residential properties was sold in Chengdu at an average selling price of RMB4,875 per sq.m. Over the period 2004-2009, residential GFA sold and average selling price have increased by a CAGR of 30.1% and 17.0% respectively.

The table below sets out the total investment in property development, GFA of commodity properties completed, GFA of residential properties sold, and average selling price of residential properties in Chengdu for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Total investment in property development (RMB in billions)	29.1	45.1	61.4	90.5	92.4	94.5	26.6%
Total GFA completed (sq.m. in millions)	8.6	7.6	12.0	10.9	12.1	16.4	13.8%
Total Residential GFA sold (sq.m. in millions)	6.8	11.1	14.8	20.8	13.6	25.3	30.1%
Residential ASP (RMB)	2,224	2,308	3,437	4,190	4,869	4,875	17.0%

Source: CEIC Data Company Limited

The Property Market in Beijing

Beijing, the capital city of China, has been experiencing fast economic growth in the past few decades and has gradually developed into a relatively mature economy. Per capita GDP in Beijing is the highest among the regions presented above and reached RMB68,788 in 2009.

Annual disposable income per capita for urban households in Beijing also grew to RMB26,738 in 2009, representing a CAGR of 11.3% for the five years from 2004 to 2009, which is largely consistent with the overall growth in China.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Population (millions).	11.6	11.8	12.0	12.1	12.3	12.5	1.5%
Nominal GDP (RMB in billions)	606.0	688.6	787.0	935.3	1,049	1,187	14.4%
Real GDP growth rate (%)	13.2%	11.1%	12.0%	12.3%	9.0%	10.1%	N/A
Per capita GDP (RMB).	41,099	45,444	50,467	58,204	63,029	68,788	10.9%
Per capita disposable income for urban households (RMB)	15,638	17,653	19,978	21,989	24,725	26,738	11.3%

Source: Beijing Statistical Year Book 2004–2009

According to CEIC Data Company Limited, in 2009, a total GFA of approximately 18.8 million sq.m. of residential properties was sold in Beijing at an average selling price of RMB13,224 per sq.m. Over the period 2004–2009, residential GFA sold has decreased by a CAGR of 3.9% whilst average selling price has increased by a CAGR of 21.6%.

The table below sets out the total investment in property development, GFA of commodity properties completed, GFA of residential properties sold, and average selling price of residential properties in Beijing for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Total investment in property development (RMB in billions)	147.3	152.5	172.0	199.6	190.9	233.8	9.7%
Total GFA completed (sq.m. in millions)	34.3	37.7	31.9	28.9	25.6	26.8	(4.8%)
Total Residential GFA sold (sq.m. in millions)	22.9	25.7	22.1	17.3	10.3	18.8	(3.9%)
Residential ASP (RMB) . . .	4,972	6,162	7,375	10,661	11,648	13,224	21.6%

Source: CEIC Data Company Limited

The Property Market in Hainan Province

Hainan is an island located off the southern coast of China, one of the special economic zones laid out by Deng Xiao Ping. According to Statistical Report on Hainan Domestic Economy and Social Development 2009, as of the end of 2009, Hainan had a population of approximately 8.6 million. The province experienced a high GDP growth rate for the five years from 2004 to 2009. In 2009, Hainan's GDP reached approximately RMB164.7 billion, representing a per capita GDP of approximately RMB19,166. The table below sets out selected economic statistics of Hainan for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Population (millions).	8.2	8.3	8.4	8.5	8.5	8.6	1.0%
Nominal GDP (RMB in billions)	79.9	89.5	105.3	122.3	145.9	164.7	15.6%
Real GDP growth rate (%)	10.4%	10.1%	12.5%	14.5%	9.8%	11.7%	N/A
Per capita GDP (RMB).	9,812	10,871	12,654	14,555	17,175	19,166	14.3%
Per capita disposable income for urban households (RMB)	7,736	8,124	9,395	10,997	12,608	13,751	12.2%

Source: 2004–2009 Hainan Province National Economic and Social Development Report

According to CEIC Data Company Limited, in 2009, a total GFA of approximately 5.4 million sq.m. of residential properties was sold in Hainan Province at an average selling price of RMB6,295 per sq.m. Over the period 2004–2009, residential GFA sold and average selling price have increased by a CAGR of 33.0% and 23.9% respectively.

The table below sets out the total investment in property development, GFA of commodity properties completed, GFA of residential properties sold, and average selling price of residential properties in Hainan Province for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
Total investment in property development (RMB in billions)	5.6	7.1	8.9	12.7	18.9	28.8	38.8%
Total GFA completed (sq.m. in millions)	1.0	1.7	1.1	2.4	2.3	3.7	29.9%
Total Residential GFA sold (sq.m. in millions)	1.3	2.3	1.9	3.0	3.2	5.4	33.0%
Residential ASP (RMB)	2,154	2,855	3,735	4,095	5,441	6,295	23.9%

Source: CEIC Data Company Limited

The Property Market in Shanghai

Shanghai is located in the Yangtze River Delta Region. According to China Real Estate Information Corporation, as of the end of 2009, Shanghai had a population of 19.2 million. As one of the most prosperous cities in China, Shanghai maintained a double-digit real GDP growth rate from 2004 to 2007, however, due in part to the slowing global economy, real GDP growth in Shanghai declined to 9.7% in 2008 and 8.2% in 2009. In 2009, Shanghai's total GDP was RMB1,505.0 billion, and Shanghai's GDP per capita ranked first amongst all provinces and municipalities in China. The table below sets out selected economic statistics of Shanghai for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>CAGR (2004– 2009)</u>
Population (millions)	17.4	17.8	18.2	18.6	18.8	19.2	2.0%
Nominal GDP (RMB in billions)	801.2	924.7	1,057	1,249	1,407	1,505	13.4%
Real GDP growth rate	14.2%	11.1%	12.0%	14.3%	9.7%	8.2%	N/A
Per capita GDP (RMB)	46,755	52,535	58,837	68,024	75,109	78,989	11.1%
Per capita disposable income for urban household (RMB)	16,683	18,645	20,668	23,623	26,675	28,838	11.6%

Source: China Real Estate Information Corporation

According to the China Real Estate Information Corporation, in 2009, a total GFA of approximately 18.8 million sq.m. of residential properties was sold. The average selling prices increased at a CAGR of 18.4% from 2006 to 2009.

The table below sets out the total investment in property development, GFA of commodity properties completed, and GFA of residential properties sold in Shanghai for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	CAGR (2004– 2009)
Total investment in property development (RMB billion)	117.5	124.7	127.6	130.8	136.7	146.4	4.5%
Total GFA completed (million sq.m.)	34.4	31.0	32.7	33.8	24.8	21.0	-9.4%
Total Residential GFA sold (million sq.m.)	N/A	N/A	15.6	20.6	9.1	18.8	6.4% ⁽¹⁾
Residential ASP (RMB) . . .	N/A	N/A	9,472	10,555	13,685	15,730	18.4% ⁽¹⁾

Source: China Real Estate Information Corporation

Notes:

(1) CAGR from 2006 to 2009

The Property Market in Tianjin

Tianjin is located in the Bohai Rim of Northern China. It is 120 km away from Beijing, the capital of China. Tianjin is a municipality under the administration of the central government of the PRC. Since the Jingjin Express Railway began service in August 2008, the travel time between Tianjin and Beijing has shortened significantly to approximately 30 minutes. According to the China Real Estate Information Corporation, Tianjin's population was approximately 12.3 million at the end of 2009. In 2009, Tianjin's GDP reached approximately RMB752.1 billion from RMB311.0 billion in 2004, representing a CAGR of 19.3%. GDP per capita rose from RMB30,575 in 2004 to RMB62,403, a CAGR of 15.3%. The table below sets out selected economic statistics of Tianjin for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	CAGR (2004– 2009)
Population (millions)	10.2	10.4	10.7	11.2	11.8	12.3	3.8%
Nominal GDP (RMB in billions)	311.0	366.3	433.7	501.8	635.4	752.1	19.3%
Real GDP growth rate	N/A	14.5%	14.4%	15.1%	16.5%	16.5%	N/A
Per capita GDP	30,575	35,457	40,961	45,829	55,473	62,403	15.3%
Per capita disposable income for urban household (RMB)	11,467	12,639	14,283	16,357	19,422	21,430	13.3%

Source: CRIC

According to the China Real Estate Information Corporation, in 2009, a total GFA of approximately 13.3 million sq.m. of residential properties was sold. The average selling price rose from RMB4,126.0 in 2004 to RMB7,414.0 in 2009, representing a CAGR of 18.9%.

The table below sets out the total investment in property development, GFA of commodity properties completed, and GFA of residential properties sold in Tianjin for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>CAGR (2004– 2009)</u>
Total investment in property development (RMB billion)	26.4	32.8	40.2	50.5	65.4	73.5	22.7%
Total GFA completed (million sq.m.)	13.0	14.8	15.2	19.9	25.6	19.0	7.9%
Total Residential GFA sold (million sq.m.)	N/A	6.7	8.3	9.8	5.0	13.3	18.7% ⁽¹⁾
Residential ASP (RMB) . . .	N/A	4,126	4,817	6,117	6,918	7,414	15.8% ⁽¹⁾

Source: China Real Estate Information Corporation

Notes:

(1) 2005–2009 CAGR

The Hotel Industry in the PRC

China's tourism industry has benefited from the strong economic growth in China which has resulted in higher disposable income for urban households, reflecting a more affluent domestic customer base. In addition, the increased number of international travelers to China also contributed to the growth of China's tourism sector. The total number of overseas visitor arrivals reached 126.5 million visitors in 2009, representing a CAGR of 3.0% from 2004 to 2009. The majority of these visitor arrivals were compatriots from Hong Kong, Macau and Taiwan, who accounted for approximately 82.7% of all overseas visitors to the PRC in 2009. The table below sets out the number of overseas visitors arriving in the PRC for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2004– 2009 CAGR</u>
From Hong Kong/Macau (millions)	88.4	95.9	98.3	101.1	101.3	100.1	2.5%
From Taiwan (millions) . . .	3.7	4.1	4.4	4.6	4.4	4.5	4.0%
Foreigners (millions)	16.9	20.3	22.2	26.1	24.3	21.9	5.3%
Total (millions)	109.0	120.3	124.9	131.8	130.0	126.5	3.0%

Source: CEIC Data Company Limited

To accommodate the growing number of visitor arrivals, the number of star-rated hotels in China increased from 10,888 in 2004 to 14,099 in 2008, representing a CAGR of 6.7%. The growth rate of high-end 4 or 5-star hotels has been even higher at a CAGR of 16.7% for the same period. The supply of hotels in Guangzhou has grown at a much lesser pace however, increasing from 1,067 in 2004 to 1,126 in 2008, representing a CAGR of 1.4%; this serves to somewhat limit the supply of hotel rooms in Guangzhou.

The table below sets out the number of hotels in China and Guangzhou for the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2004– 2008 CAGR</u>
Star-rated hotels in China (number) . .	10,888	11,828	12,751	13,583	14,099	6.7%
4 or 5 Star hotels in China (number) .	1,213	1,427	1,671	1,964	2,253	16.7%
Star-rated hotels in Guangzhou (number)	1,067	1,083	1,146	1,169	1,126	1.4%

Source: CEIC Data Company Limited

Office Property Market in the PRC

Foreign direct investment in China increased from US\$60.6 billion in 2004 to US\$90.0 billion in 2009. Many multi-national corporations have set up their regional headquarters in China to enhance access to, and establish a foothold in, local markets.

Economic growth has been accompanied by a general shift of the economic base within major urban areas away from production-based industrial activities to more service-based activities, such as research and development, product design, market research, branding and consulting. The Tertiary industry is becoming a more important component of the overall economy, growing from RMB6,456 billion in 2004 to RMB14,292 billion in 2009.

The employed population in the tertiary sector in China increased from 124 million in 1991 to 266 million in 2009 and its share of the entire workforce rose from 18.9% to 34.1%, respectively. The growth in the tertiary sector will generate more demand for office properties to house the increasing workforce in this sector.

Retail Property Market in the PRC

Retail sales in China have experienced strong growth. Retail sales in China grew by 15.5% in 2009. Growth in retail sales largely reflect the urbanization of households in China, as the propensity to consume of urban households is higher than that of rural households.

Disposable income in China has continued to grow steadily and this has benefited the development of the retail sector in the country. As China's population becomes more affluent, the composition of its population's retail spending is shifting away from a heavy weighting on food towards a more balanced consumption model similar to that of a more developed country. The shift in consumption pattern towards more discretionary spending is expected to continue as income increases.

Demand for prime retail spaces is expected to remain firm on the back of China's rapid urbanization and rising income levels of the middle and upper class.

Competition and Strengths

For more information on competition, see "Business — Competition" in this offering memorandum. We believe that we have certain competitive strengths notwithstanding the competition with the other PRC real estate property developers. For more information on our competitive strengths, see "Business — Competitive Strengths" in this offering memorandum.

BUSINESS

Overview

We are a large scale property developer with a leadership position in Guangzhou and an established presence in Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan. We focus on medium- to high-end residential property developments with distinctive characteristics. To diversify our earnings mix, we also develop commercial properties in prime locations as long-term investments, including office buildings, shopping malls, serviced apartments and hotels. We commenced operation of our first office property, International Finance Place, in August 2007. In September 2009, we opened our first hotel, Four Points by Sheraton in Guangzhou, and are currently developing two additional high-end hotels in Guangzhou, including mainland China's first W Hotel and Huadu Sheraton Resort as well as W Serviced Apartment, a high-end serviced apartment in Guangzhou. In addition, we are planning to develop six further high-end hotels and six high-end shopping malls in various cities including Guangzhou, Suzhou and Chengdu, as well as Hainan Province. Our hotels will be operated by internationally renowned hotel operators including affiliates of Starwood Hotels & Resorts Worldwide, Inc. (the "Starwood Hotels Group"). We believe our investment properties and hotels will help further strengthen our brand name. We also engage in property-related businesses such as property management for residential and commercial properties.

Historically, we have focused our property developments in Guangzhou, the capital of Guangdong Province and one of China's largest cities, capturing the opportunities presented by its rapidly growing economy. In particular, we have focused on developments in prime locations, such as the Pearl River New Town, which in recent years has been promoted by the Guangzhou government as the CBD. The Guangzhou government has devoted significant resources and adopted certain favorable policies to develop the Pearl River New Town into Guangzhou's new financial and commercial centre. For example, the Guangzhou City Library, the Guangdong Province Museum and the Guangzhou Opera House are all distinctive buildings in the Pearl River New Town which were completed in 2010, the year Guangzhou hosted the Asian Games. We intend to maintain our leadership position in Guangzhou's property market while further enhancing our presence in Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan, where we have established operations. We also intend to expand in a prudent manner into other selected cities with high growth potential by leveraging our expertise in the regions where we operate, namely the Pearl River Delta (with a focus on Guangzhou), Yangtze River Delta (with a focus on Suzhou and Shanghai), Western Region (with a focus on Chengdu), and Bohai Rim (with a focus on Beijing and Tianjin). As of December 31, 2010, we had three completed projects and eight projects under development and held for future development in Guangzhou and one completed project and three projects under development in Suzhou, three projects in Chengdu, one project in Beijing, one project in Hainan Province, four projects in Shanghai and one project in Tianjin, at various stages of development.

We believe that we have been able to consistently achieve a premium price for our products in all the geographic locations where we operate. Our success is attributable to our premium quality products, distinctive designs and superior property management service, all of which have successfully distinguished us in the highly competitive property markets in Guangzhou and the other geographic locations where we operate. We have also been able to enhance customer confidence in our products and retain customer loyalty as indicated by high percentages of repeat customers and client referrals of our projects. We have received various awards in recognition of our premium quality products and our achievements as a property development company. For example:

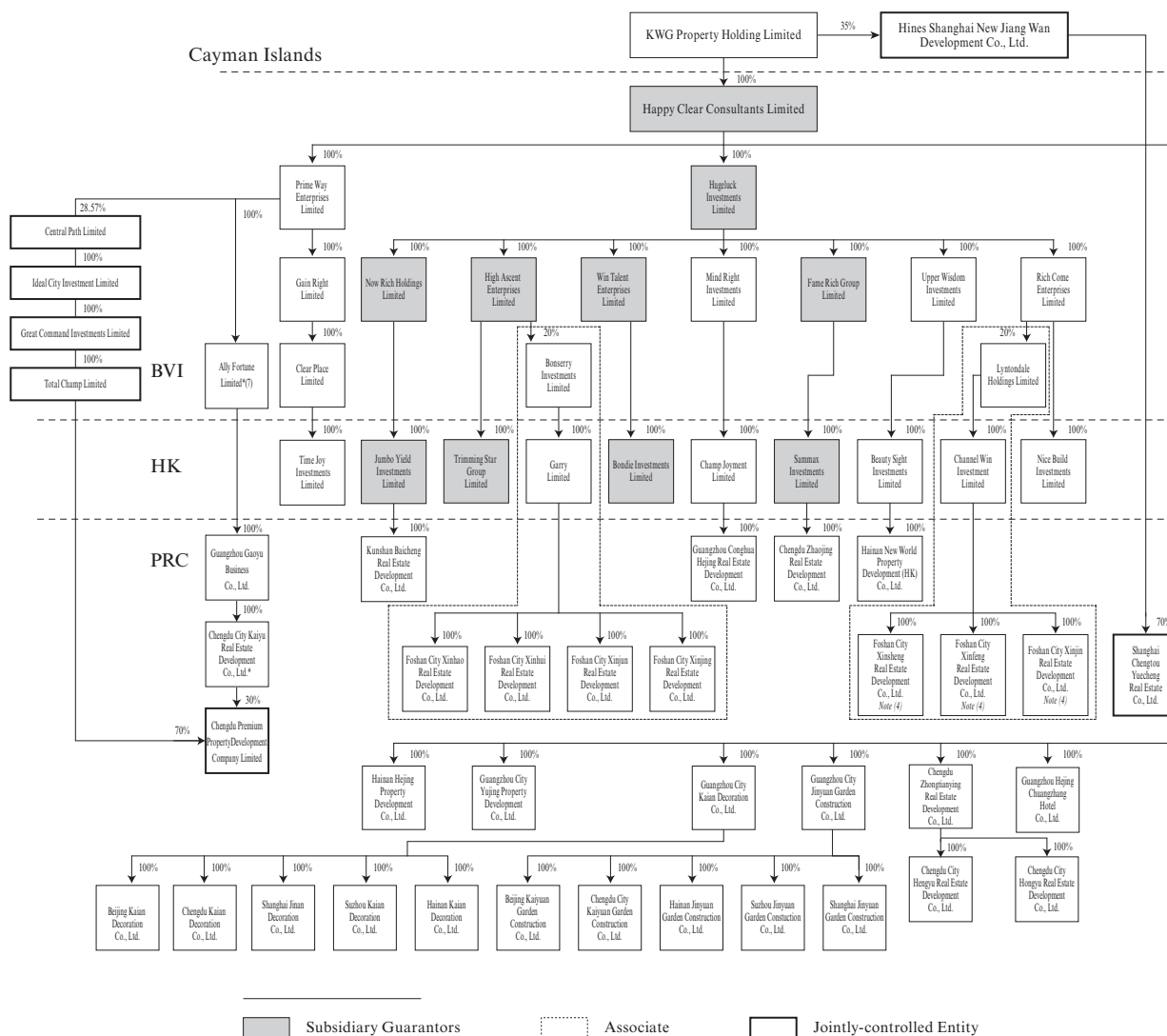
- According to the E-House China R&D Institute, Beijing Fragrant Seasons was ranked among the top ten developments by GFA sold in Beijing in 2010, and according to the *Beijing News*, Beijing Fragrant Seasons was among the top 20 developments by sales proceeds in 2010.
- The Summit received the “2010 Best Villa Award” from the *Yangcheng Evening News*.
- Recognized as one of the “Top 100 Chinese Real Estate Enterprises in 2010 — Top 10 Profitable Enterprises” by the China Real Estate Association, Business Research Center of the Development Research Center of the State Council, Institute of Real Estate Studies of Tsinghua University, and China Index Research Institute.
- Our company was recognized as one of the “Top 20 Guangzhou Real Estate Development Enterprises by Sales Amount” by China Real Estate Evaluation Centre in 2009.
- *The Guangzhou Daily* recognized our company as one of the “Top 10 Property Developers Contributing to Residential Living in China on the 60th Anniversary of the Establishment of the PRC” in 2009.
- Suzhou Apex was awarded the “Most Popular Landmark Real Estate in Suzhou in 2010” by real estate internet portal, www.SouFun.com.
- The Apex in Guangzhou was recognized as “Best Quality Luxury Residence in Guangzhou 2009” by *SouFun.com*. Our Sky Ville project was selected as one of the “Top 10 Villas in Annual Real Estate Review 2009” by the *Yangcheng Evening News*.
- Chengdu Cosmos received “2009 — Golden Award of Property Development of the Year” by the Sichuan Daily Newspaper Group and Cheungdu Real Estate Management Bureau.
- Fragrant Seasons in Beijing was selected for the “Golden Award List of Top 10 Best-selling Property Developments of Beijing 2009” by *the Beijing Youth Daily*.

We commenced our property development business in 1995. As of December 31, 2010, we held four completed projects with a total site area of approximately 437,555 sq.m. and a total saleable GFA attributable to our Group of approximately 166,000 sq.m., and investment properties from residual projects with a total saleable GFA attributable to our Group of approximately 27,000 sq.m. (see “— Residual Properties”). As of December 31, 2010, we had 20 projects under development, including four projects being developed in the Pearl River New Town in Guangzhou, with a total site area of approximately 6,339,252 sq.m. and a total saleable GFA attributable to our Group of approximately 7,668,194 sq.m. As of December 31, 2010, we had one project held for future development with a total site area of approximately 748,877 sq.m. and a total saleable GFA attributable to our Group of approximately 560,000 sq.m.

In 2008, 2009 and 2010, we sold and delivered a total GFA of approximately 133,531 sq.m., 509,834 sq.m. and 784,116 sq.m., generating revenue from sale of properties of approximately RMB1,471.2 million, RMB4,110.0 million and RMB7,221.1 million (US\$1,094.1 million), respectively. During the same periods, our profit was approximately RMB366.2 million, RMB721.5 million and RMB1,281.8 million (US\$194.2 million), respectively.

Corporate Structure

The following chart sets forth our corporate structure as of December 31, 2010.

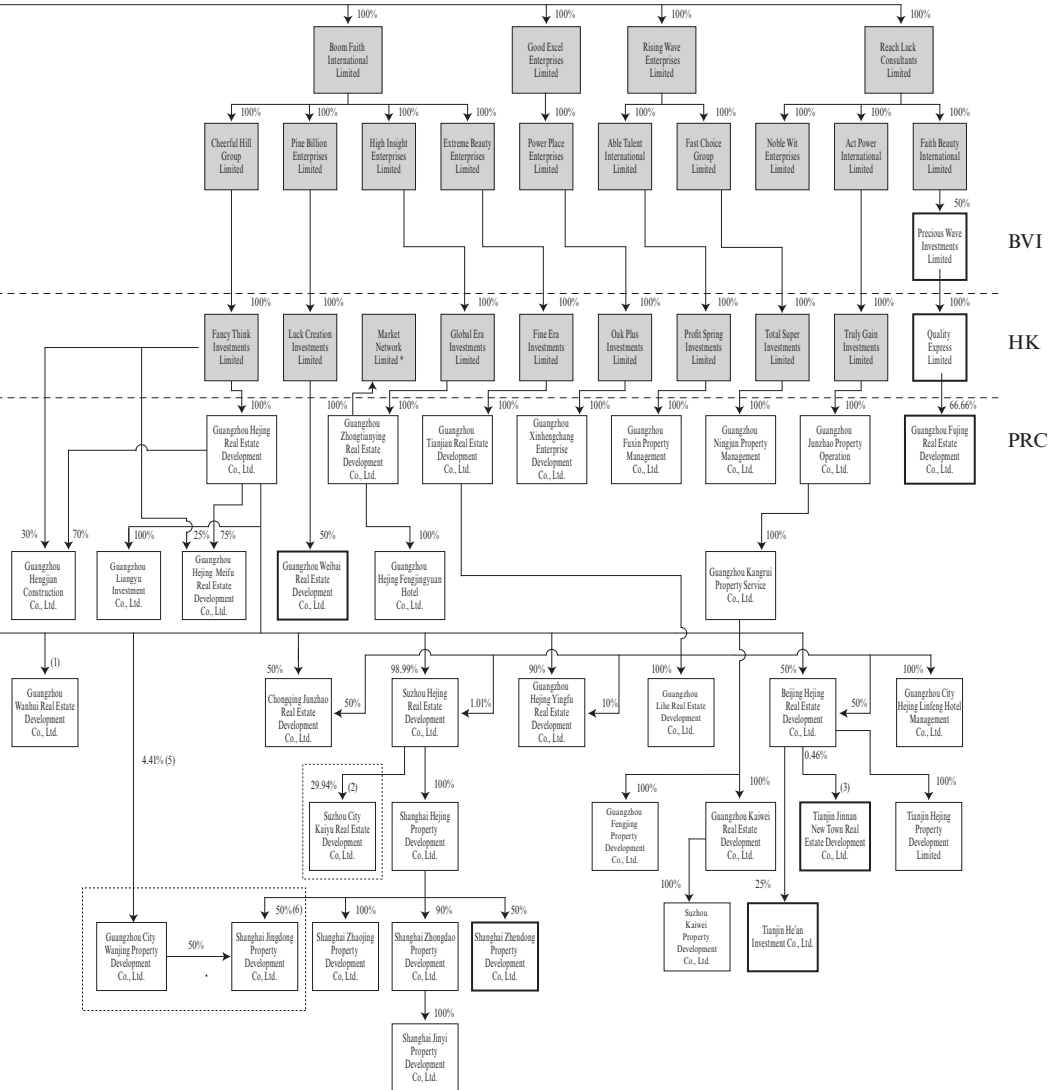


The capital stock of Market Network Limited will not be pledged for the benefit of the holder of the Notes and will not form part of the Collateral. See "Description of the Notes — Security".

* We designated Ally Fortune Limited, Guangzhou Gaoyu Commercial Co., Ltd. and Chengdu City Kaiyu Real Estate Development Co., Ltd. as Unrestricted Subsidiaries under the indenture governing the 2010 Notes. Such companies will also be designated as Unrestricted Subsidiaries under the Indenture governing the Notes.

Note:

- (1) Trust financing arrangement in place. The Group currently does not hold any equity interest in this entity. See "Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements — Guangzhou Trust Financing"
- (2) Trust financing arrangement in place. See "Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements — Suzhou Trust Financing"
- (3) Trust financing arrangement in place. See "Joint Venture Operations — Tianjin Joint Venture."
- (4) Each of these companies is in the process of applying for an extension of its business term.
- (5) Trust financing arrangement in place. See "Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements — Shanghai Pudong Project Trust Financing."
- (6) The shares of Shanghai Hejing Property Development Co., Ltd. in Shanghai Jingdong Property Development Co., Ltd. are pledged to Xinhua Trust. See "Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements — Shanghai Pudong Trust Financing."
- (7) On March 15, 2011, we acquired 100% of New Phoenix Holdings Limited, a company incorporated under the laws of Hong Kong, that does not own any significant assets as of the date of this offering memorandum. New Phoenix Holdings Limited is an Unrestricted Subsidiary under the Indenture governing the Notes.



Competitive Strengths

Premium product quality

We believe our high-quality products, continuous product upgrade, distinctive designs, and superior property management services have successfully distinguished us in the highly competitive property markets in Guangzhou and the other geographic locations where we operate. We believe that we have been able to consistently achieve a premium price for our products. We have also been able to enhance customer confidence in our products and retain customer loyalty as demonstrated by our high percentages of repeat customers and client referrals. For example, we estimate that for The Apex project, the percentages of repeat customers and client referrals are 30% and 40%, respectively. For our Sky Ville project, we estimate that the percentages of repeat customers and client referrals are 25% and 30%, respectively.

- *High-Quality First-of-its-Kind Products.* We believe that through our experience over the past 15 years, we have developed a good understanding and insight into the preferences and trends in the property markets where we operate, and are able to competitively position our products to maximize the attractiveness and unique characteristics of each parcel of land. Over the past 15 years, we have been able to continuously and consistently provide our customers with high-quality products, some of which are first-of-their-kind. For example, The Apex project in Guangzhou will include the first W Hotel in mainland China. Our Chengdu Cosmos project is the first high rise apartment building project with private swimming pool in each unit in China. The Zengcheng Summit project in Guangzhou is the first large scale comprehensive mixed-use luxury project in Zengcheng District, Guangzhou, and includes an international five-star Sheraton Hotel.
- *Continuous Product Upgrade and Distinctive Designs.* We strive to combine attractive living environments (such as park, river and lake views) with distinctive interior designs, as well as incorporating modern and creative comforts, such as intelligent security systems and hotel-style concierge services for certain projects. We make continuous efforts in product upgrade and innovation. For example, our Chengdu Cosmos, The Apex and Sky Ville projects have received various awards for innovative designs. We have collaborated with leading domestic and international design firms to work on critical aspects of property development such as architectural design, landscape & environmental design and interior design.
- *Superior Property Management Services.* We have established two lines of property management teams to provide after-sale property management services to our purchasers of high-end and mid-end projects respectively. To improve our management skills, we had retained leading property management consulting firms to provide property management advice on property management of high-end residential projects and office buildings. From time to time, we also organize community events for our residents to improve customer relationships. We believe our superior property management services help us to promote our brand name recognition and enhance customer confidence in our projects.

We have received various awards in recognition of our projects and our achievements as a property development company. See “— Overview.”

Strong execution capability

We believe we are equipped with strong execution capability, as evidenced by our leadership position in Guangzhou's high-end residential market and our ability to replicate our success outside of Guangzhou.

- We are a market leader in Guangzhou's high-end residential market. In our experience of 15 years as a property developer, we have been able to achieve a premium price for our products consistently in all the geographic locations where we operate. For example, our The Cosmos, The Apex and King Peak Garden projects are among the top 10 historically highest priced residential apartments in Guangzhou. According to Sina, we were ranked seventh and eighth in Guangzhou by GFA sold an sales proceeds, respectively, in 2010.
- We had successfully expanded our property development into Suzhou, Chengdu, Beijing and Hainan Province. Some of our projects in these locations achieved record selling price and take up on multiple launches. For example, The Sapphire, our luxury residential project in Suzhou, was the highest priced project in Xiangcheng District, Suzhou in June 2009. Our luxury high-rise apartment project, Chengdu Cosmos, achieved highest selling price in Chengdu in 2009. According to the real estate portal SouFun.com, we were ranked third by sales proceeds and accounted for 6% of market share by sales proceeds in Suzhou.

Our strong execution capability is further demonstrated by our ability to adjust our strategies to maintain a balance between stable development and prudent expansion during China's property market downturn in 2008 and the global financial crisis in 2009, preventing us from diluting our brand name and allowing us to preserve our capability for future land acquisitions. After the announcement of the 11 property tightening measures on April 15, 2010, we continued with our scheduled project launches and achieved satisfactory take up. We believe that this is due to our superior brand name, premium product quality and innovative product designs, as well as strong execution capability in difficult market conditions.

Prudent and disciplined land acquisition and expansion

We maintain a disciplined and prudent land acquisition and expansion strategy. Prior to acquiring land for a project, we perform a comprehensive feasibility study covering targeted selling price, total investment, gross profit margin and project return. If the land acquisition costs exceed our pre-set ratio of land acquisition costs to estimated revenue, we will typically not proceed with the land acquisition.

To date, we have expanded outside Guangzhou into other cities at a moderate pace. For each city we have expanded into, we have taken time to establish and strengthen our brand name, gradually increased our market share, focused our management and resources on operations to achieve economies of scale, built up our relationship with local government and sought opportunities to acquire more land at lower costs. We believe such an approach enables us to acquire land prudently and manage our cash flow requirements effectively. In the cities we have expanded into, our land reserves are well-located to cater for wide product range in order to capture different market segments. To date, most of our land reserves have been located in China's first and second tier cities, such as Guangzhou, Suzhou and Chengdu, which we believe to be more resilient during the periods of property market downturns due to the large organic demand present in those cities.

We anticipate that these cities will suffer less price correction in potential property downturn. We believe our low risk business model will allow us to continue to achieve sustainable and stable growth.

Steady roll-out of high-quality investment properties and hotels

To date, we have been able to roll out high-quality investment property projects and hotels, including International Finance Place and Four Points by Sheraton Guangzhou, Dongpu. Such investment property projects and hotels enhance our brand recognition as well as development capability, which in turn provide us with an advantage in our land acquisitions. Our investment properties and hotels help reduce our exposures to fluctuations in property sales prices, provide us with a stable and recurring cash flow and diversify our revenue from sale of properties. In addition, our investment properties and hotels provide us with additional financing flexibility because we have been able to mortgage certain investment properties to secure some of our general banking facilities at both onshore and offshore level. We intend to continue to roll out high quality investment properties and premium hotels in the future. We expect that our portfolio of hotels, retail shop units, shopping malls and offices held on a long-term basis to account for approximately 20% of our asset base.

Strong cash flow and multiple financing channels

We have been able to maintain strong cash flows and obtain multiple channels of financing which provide us with additional financial flexibility. As of December 31, 2010, our cash and cash equivalents amounted to RMB5,275.6 million (US\$799.3 million). In August 2010, we issued US\$250.0 million 12.50% Senior Notes due 2017. In June 2009, we successfully raised HK\$1,530.0 million from a share placement. We also obtained bank loans in the aggregate amount of HK\$1,914.5 million from Industrial and Commercial Bank of China (Asia) Limited in 2006, 2008 and 2010, and bank loans in the aggregate amount of HK\$495.0 million from Standard Chartered Bank in April 2009 and February 2011. Further, we have established cooperative relationships with, and received bank loans from, various PRC banks including China Construction Bank, Agricultural Bank of China and Industrial and Commercial Bank of China. We believe our strong cash flow and multiple financing channels will enable us to expand steadily into our target markets and sustain long-term growth.

Proven experience in joint venture projects and strong relationship with renowned domestic and international partners

Due to our premium product quality, recognized brand name and strong execution capability, many reputable property developers are willing to cultivate working relationships with us by setting up mutually beneficial joint ventures for project developments. Such joint venture operations enable us to obtain access to prime location land at reasonable costs, participate in and jointly develop very large scale and profitable projects with leading developers, leverage each other's strong brand names, and enter into new locations with developers with more experience in such markets, thus lowering our execution risks and costs. For example, in 2007, we jointly bid for Lie De project together with Guangzhou R&F Properties Co., Limited and Sun Hung Kai Properties Limited. In March 2010, we acquired minority interests in the Foshan Project with Sun Hung Kai Properties Limited, with whom we have further deepened our relationship in the joint development of such projects. In November 2010, we established a joint venture with Hongkong Land China Holdings Limited to develop a parcel of land in Chengdu. In addition, we have established strong relationships with leading architects and design firms, premier hotel operators, reputable office and retail tenants, and world-renowned financial institutions.

Seasoned management team and efficient risk control system

We believe our success and future prospects depend on the quality of our people. Our management team has extensive experience in the property development industry. Certain of our key executives, including our founder and Chairman, Kong Jian Min, have led the growth of our business since its inception in 1995. A number of our senior management members have been in the property development industry for more than 10 years. In recent years, while maintaining the stability of our core management team, we have recruited senior and mid-level executives with expertise in various fields through a selective recruitment process from mainland China, Hong Kong and overseas. We believe our recruitment effort has attracted significant new management talent. To retain and motivate our workforce, we offer our employees career advancement prospects and professional skills development, which in turn sets the foundation for our continuous growth and long-term success. Since our inception, we have sought to create and maintain a corporate culture that encourages creativity and commitment. We also motivate our employees with performance-based bonuses and other incentives and career development opportunities.

In addition, we have invested significantly in our Enterprise Resources Planning (“ERP”) system which provides us with real time and efficient risk control over the entire property development value chain including land acquisition, construction and cost management, sale and cash management and after-sale customer service and property management.

Business Strategies

Maintain leadership position in Guangzhou, enhance presence in other cities where we operate and conduct measured expansion in key regions

Our strategy is to maintain our leadership position in Guangzhou’s property market, while further enhancing our presence in Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan where we have established operations. We also intend to expand in a prudent manner into other selected cities with high growth potential leveraging our existing expertise in the regions where we operate, namely the Pearl River Delta, Yangtze River Delta, Western Region, and Bohai Rim.

Continue our focus on developing premium quality products

We intend to continue to focus on innovative product design and premium quality by developing property projects to cater to the needs of our target customers. We will continue to supplement our residential property developments with the roll-out of more attractive investment property projects and premium hotels to reinforce the association between our brand name with prestige and quality. By cultivating our ability to develop integrated properties, we intend to seek opportunities to work with local governments in city-centre development projects in order to further enhance the recognition of our brand name.

Continue to seek mutually beneficial joint venture partnerships in project development

We intend to leverage our current joint venture partners’ financial resources and expertise in developing large-scale integrated projects. In order to lower the execution risks and costs associated with existing operations and future expansion, we will continue to leverage our current experience in joint venture operations and seek mutually beneficial joint venture partnerships in project development.

Continue to adopt prudent financial policy and proactive approach to capital structure

We will continue to leverage our advanced ERP system to carefully manage costs and risk control. We will also continue to closely monitor our capital structure, cash flow and liquidity positions and carefully manage key financial measures such as our gearing ratios, interest coverage and working capital positions.

Recent Developments

SCB 2011 Facility

On February 9, 2011, we signed a loan agreement with SCB for a secured and guaranteed Hong Kong dollar denominated term loan facility with an aggregate principal amount of up to HK\$195 million. As of the date of this offering memorandum, the principal amount of the loan facility in Hong Kong dollars drawn down and outstanding is equivalent to US\$25 million. See “Description of Material Indebtedness and Other Obligations — Recent Material Indebtedness.”

Purchase of Shares in the Shanghai Project Co

On January 20, 2011, following an auction of 30% of the registered capital of the Shanghai Project Co, which was held by SCC, we entered into an equity transfer agreement with Shanghai R&F and SCC to acquire the 30% registered capital of the Shanghai Project Co. The Shanghai Project Co holds parcels of land under development located at New Jiang Wan, Yangpu District, Shanghai. See “ — Properties Under Development — Shanghai New Jiang Wan Project, Shanghai.” We are in the process of applying for relevant approvals and registration of this acquisition. Upon receipt of approvals and completion of registration, we expect to increase our ownership in the Shanghai New Jiang Wan Project from 35% to 50%. Pursuant to the equity transfer agreement, Shanghai R&F and we agreed to acquire the shares from SCC for a total consideration of approximately RMB1,014.3 million (US\$153.7 million).

New Projects Held for Future Development

In January 2011, we increased our projects held for future development by four to include the Shanghai Jiading D-07 Project, the Shanghai Jiading Chengbei Project, the Suzhou Yinshan Lake Project and the Hainan Moon Bay Project. The table below sets forth the GFA in sq.m. and other information of our four new projects held for future development as of January 31, 2011.

Project	Location	Site Area	Total GFA for		Property Interest Attributable to the Group	Total GFA Attributable to the Group ⁽²⁾	Total Saleable GFA Attributable to the Group ⁽³⁾			Expected Completion Date of the Project
			Future Development ⁽¹⁾	Total GFA			Total	Held for Sale	Investment ⁽⁴⁾	
Projects Held for Future Development										
Shanghai Jiading D-07 Project	Shanghai	53,829	161,488	161,488	90%	145,339	145,339	95,339	50,000	2014
Shanghai Jiading Chengbei Project ⁽⁵⁾	Shanghai	77,180	154,360	154,360	100%	154,360	154,360	154,360	—	2014
Suzhou Yinshan Lake Project ⁽⁵⁾	Suzhou	63,944	159,860	159,860	100%	159,860	159,860	159,860	—	2014
Hainan Moon Bay Project	Hainan	202,080	107,898	107,898	100%	107,898	107,898	41,152	66,746	2016

Notes:

- (1) “Total GFA for Future Development” is derived from our internal records and estimates.
- (2) Total GFA Attributable to the Group” is the total GFA that we are entitled to after apportionment of GFA in accordance with “Property Interest Attributable to the Group.”

- (3) “Total Saleable GFA Attributable to the Group” for projects held for future development represents our attributable saleable GFA for the projects as of January 31, 2011.
- (4) For lease and hotel purposes, including, among others, office, hotel, serviced apartments, and shopping mall.
- (5) We entered into land grant confirmation letters for the land related to this project, but have not entered into land grant contracts or obtained land use right certificates.

The following paragraphs describe our four new projects held for future development as of January 31, 2011:

Shanghai Jiading D-07 Project (上海嘉定D-07項目), Shanghai

Shanghai Jiading D-07 Project is a commercial development located in Jiading District, Shanghai. It is close to Line 11 of the Shanghai Metro. The project occupies a total site area of approximately 53,829 sq.m. The project is expected to feature a hotel, serviced apartments and other commercial properties. As of January 31, 2011, total saleable GFA attributable to the Group was approximately 145,339 sq.m., of which 95,339 sq.m. was held for sale and 50,000 sq.m. was held for investment purposes. We have a 90% ownership interest in this project.

Shanghai Jiading Chengbei Project (上海嘉定城北項目), Shanghai

Shanghai Jiading Chengbei Project is a residential development located in Jiading District, Shanghai. It is close to Line 11 of the Shanghai Metro. The project occupies a total site area of approximately 77,180 sq.m. We entered into land grant confirmation letters for the land related to this project, but have not entered into land grant contracts or obtained the land use right certificates. As of January 31, 2011, total saleable GFA attributable to the Group was approximately 154,360 sq.m., all of which was held for sale. We have a 100% ownership interest in this project.

Suzhou Yinshan Lake Project (蘇州尹山湖項目), Suzhou

Suzhou Yinshan Lake Project is an integrated development located in Wuzhong District, Suzhou City. It is close to Line 4 of the Suzhou Subway. The project is expected to feature residential and commercial developments. The project occupies a total site area of approximately 63,944 sq.m. We entered into land grant confirmation letters for the land related to this project, but have not entered into land grant contracts or obtained the land use right certificates. As of January 31, 2011, total saleable GFA attributable to the Group was approximately 159,860 sq.m., all of which was held for sale. We have a 100% ownership interest in this project.

Hainan Moon Bay Project (海南月亮灣項目), Hainan

The Hainan Moon Bay Project is an integrated residential, commercial and hotel development with scenic views located in the Moon Bay Scenic Area within Longlou Town, Wenchang City, Hainan. The project occupies a total site area of approximately 202,080 sq.m. As of January 31, 2011, total saleable GFA attributable to the Group was approximately 107,898 sq.m., of which 41,152 sq.m. was held for sale and 66,746 sq.m. was held for investment purposes. We have a 100% ownership interest in this project.

Description of Our Property Developments

Overview

As of December 31, 2010, we had 25 projects at various stages of development (as listed below), which were located in Guangzhou, Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan. We divide our property developments, for which we have received the relevant land use rights certificates, into three categories:

- completed projects;
- projects under development; and
- projects held for future development.

A project is considered completed when we have received the Completed Construction Works Certified Report from the relevant government construction authorities. A project is considered to be under development immediately following the issuance of the required construction works commencement permits with respect to part or all of the project and before completion of the entire project, or immediately following the commencement of development of part or all of the project. A project is considered to be held for future development when we have signed the relevant land grant contracts or the land grant confirmation letter or received the relevant land use rights certificates but have not yet received the required construction works commencement permits.

As some of our projects comprise multiple-phase developments on a rolling basis, one project may include different phases at various stages of completion, under development or held for future development. A project comprising multiple phases is also considered to be a project under development if we have received the required construction works commencement permits with respect to at least one phase of the development.

As of December 31, 2010, we had 25 projects with a total site area of approximately 7,525,684 sq.m. and a total GFA of approximately 16,505,653 sq.m. The site area information for a project is based on the relevant land use rights certificates. The total GFA of a project is calculated by multiplying its site area by the maximum permissible plot ratio as specified in the relevant land grant contracts or other approval documents from the local governments relating to the project. The total GFA of a project comprises saleable GFA and non-saleable GFA. Saleable GFA refers to total GFA less non-saleable GFA, which refers to certain communal facilities, including, among others, club houses, schools and ancillary facilities. Saleable GFA may be held for sale or held for investments, depending on our development plans.

Saleable GFA refers to saleable GFA held for sale or held for investment. Saleable GFA held for sale refers to residential units and other properties that have been identified for sale. Saleable GFA held for investment refers to, among others, retail shop units, shopping malls, office buildings, hotels and serviced apartments, unless specifically identified for sale.

Property sales revenue is recognized after we have executed the purchase contract with a customer and have delivered the completed property to the customer. Property is pre-sold at the time when we have collected a deposit from customer and entered into a purchase subscription contract with them prior to the completion of the property but have not yet delivered the property to the customer. The property is delivered to the customer upon, among others, (i) full payment by the

customer, and (ii) the property being completed, inspected and accepted as qualified. For further details, see “Regulations — The Land System of the PRC — Pre-sale and Sale” of this offering memorandum.

Information regarding payment for land premium and development costs in this offering memorandum is based solely on our internal records or estimates.

We include in this offering memorandum the project names which we have used, or intend to use, to market our properties. Some of the names for property developments may be different from the names registered with the relevant authorities, are subject to approval by the relevant authorities and may be subject to change.

The table below sets forth the GFA in sq.m. and other information of our 25 projects as of December 31, 2010.

No.	Completed Projects	Project ⁽¹⁾	Location	Site Area	Total GFA Completed ⁽²⁾	Total GFA Under Development ⁽²⁾	Total GFA for Future Development ⁽³⁾	Total GFA	Property Interest Attributable to the Group	Total GFA Attributable to the Group ⁽⁴⁾⁽⁸⁾	Total Saleable GFA Attributable to the Group ⁽⁵⁾⁽⁸⁾		Completion Date or Expected Completion Date of the Project
											Held for Sale	Held for Investment ⁽⁶⁾	
1.	Waterrfront Mansion	Guangzhou	228,229	289,475	—	289,475	100%	289,475	42,000	—	—	2010	
2.	International Finance Place	Guangzhou	7,262	101,378	—	101,378	100%	101,378	61,000	—	61,000	2007	
3.	Four Points by Sheraton	Guangzhou	6,000	35,000	—	35,000	100%	35,000	35,000	—	35,000	2009	
4.	The City Island	Suzhou	196,064	285,739	—	285,739	100%	285,739	28,000	—	28,000	2010	
	Residual Properties ⁽⁷⁾	Guangzhou	—	—	—	—	100%	—	—	—	27,000	—	
Projects Under Development													
5.	Sky Ville	Guangzhou	485,296	443,300	30,000	473,300	100%	473,300	179,000	—	163,000	2011	
6.	The Apex	Guangzhou	22,626	194,143	74,000	268,143	100%	268,143	74,000	—	74,000	2011	
7.	International Creative Valley	Guangzhou	150,082	197,428	196,385	393,813	100%	393,813	225,000	—	225,000	2011	
8.	Zhengcheng Summit ⁽¹⁾	Guangzhou	1,971,126	5,000	2,697,607	2,712,346	100%	2,712,346	2,507,000	—	2,356,000	2011-2019	
9.	D3-4	Guangzhou	5,162	—	40,848	40,848	100% ⁽⁹⁾	40,848	34,000	—	34,000	2012	
10.	J2-2	Guangzhou	8,066	—	171,288	171,288	50%	171,288	72,000	—	72,000	2014	
11.	Lie De ⁽¹²⁾	Guangzhou	114,176	—	155,000	155,000	33%	155,000	142,000	—	142,000	2012-2014	
12.	The Up Blue Town	Suzhou	73,581	179,803	10,000	189,803	100%	189,803	52,000	—	52,000	2011	
13.	The Sapphire ⁽¹³⁾	Suzhou	348,449	170,000	491,298	851,575	100%	851,575	647,000	—	52,000	2011-2014	
14.	Suzhou Apex	Suzhou	170,323	—	150,000	316,400	29.9% ⁽¹⁰⁾	127,494	127,494	—	87,697	2011-2013	
15.	The Vision of the World	Chengdu	117,518	140,000	374,372	637,855	100%	637,855	456,000	—	456,000	2011-2013	
16.	Chengdu Cosmos	Chengdu	186,705	60,000	300,153	890,000	100%	890,000	825,000	—	695,000	2011-2015	
17.	Chengdu Jiniang Project ⁽¹⁷⁾	Chengdu	190,253	—	256,448	643,643	50%	450,046	385,000	—	65,000	2012-2019	
18.	Fragrant Seasons (a.k.a. Sound of the South)	Beijing	376,150	30,000	349,766	595,014	100%	595,014	460,000	—	460,000	2011-2014	
19.	Lingshui Project	Hainan	531,336	—	179,210	328,000	100%	328,000	293,000	—	253,000	2013	
20.	Tianjin Jinan Project ⁽¹⁴⁾	Tianjin	1,289,227	—	583,700	2,427,300	25%	3,011,000	752,750	—	700,000	2012-2019	
21.	Shanghai Pudong Project ⁽¹⁸⁾	Shanghai	26,053	—	78,160	78,160	100%	78,160	78,000	—	78,000	2014	
22.	Shanghai Putuo Project	Shanghai	42,045	—	157,400	157,400	50%	78,700	78,700	—	21,700	2013-2014	
23.	Shanghai Jading E-06 Project ⁽¹⁹⁾	Shanghai	88,415	—	74,200	110,518	100%	110,518	110,500	—	36,300	2012-2014	
24.	Shanghai New Jiang Wan Project	Shanghai	142,664	—	128,229	271,343	35% ⁽¹⁶⁾	94,970	94,500	—	86,500	2012-2014	
Projects Held for Future Development													2013-2016
25.	Foshan Project ⁽¹⁵⁾	Guangzhou	748,877	—	2,782,164	2,782,164	20%	560,000	560,000	—	560,000	—	
Total											8,421,194	862,797	

Notes:

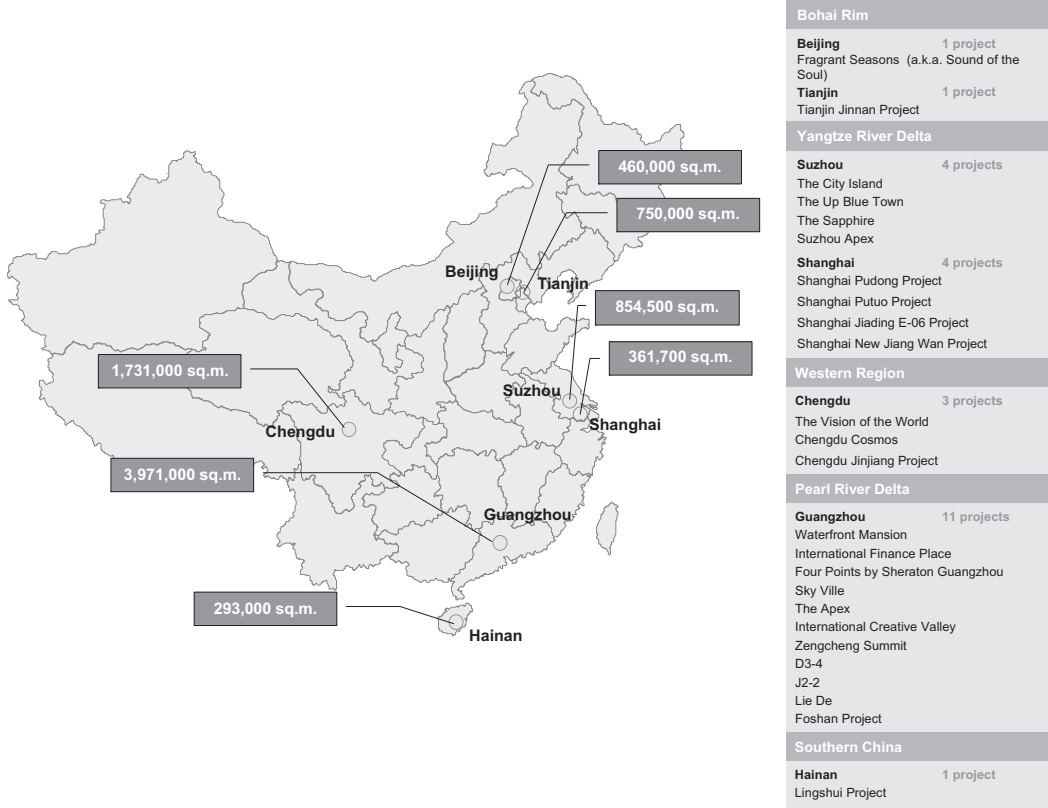
- See “— Description of Our Property Developments.”
- “Total GFA Completed” and “Total GFA Under Development” for completed projects and projects under development, respectively, are derived from our internal records.
- “Total GFA for Future Development” is derived from our internal records and estimates.
- “Total GFA Attributable to the Group” is the total GFA that we are entitled to after apportionment of GFA in accordance with “Property Interest Attributable to the Group.”
- “Total Saleable GFA Attributable to the Group” for completed projects, projects under development and projects held for future development represents our attributable saleable GFA for the projects as of December 31, 2010.
- For lease and hotel purposes, including: among others, office, hotel, serviced apartments, convention center and shopping mall.
- Includes investment properties of Yuhui Garden, Yuhua Garden, La Bali, Color of United, City of Perfection, The Cosmos, King Peak Garden, Ma’an Mountain No.1, Jinghu Garden and Yucui Garden, see “— Residual Properties.”
- Includes residual properties, see “— Residual Properties.”
- We entered into a trust financing arrangement to finance this project under which Citic Trust Limited Company holds 100% equity interest in the project company. See “Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements — Guangzhou Trust Financing.” We assume 100% property interest attributable to the Group.
- We entered into a trust financing arrangement to finance this project under which Jiangxi International Trust Limited Company holds approximately 60.1% equity interest in the project company. See “Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements — Suzhou Trust Financing.”
- A total of approximately 136,000 sq.m. of GFA is to be delivered to Dongling Holding Co. Ltd. upon completion as part of the consideration for the acquisition of this project.
- We entered into a land grant contract for the land related to this project, but have not obtained the land use right certificate.
- We have not paid up all the land premium and have not obtained the land use right certificate for certain parcels of land with a site area of approximately 86,777 sq.m.
- We entered into land grant contracts for the land related to this project, but have not obtained the land use right certificates. We have commenced development activities, but have not commenced construction for this project.
- We entered into a trust financing arrangement to finance this project under which Ping An Trust Limited Company (平安信托有限责任公司) holds 98.16% equity interest in the project company. See “— Joint Venture Operations — Tianjin Joint Venture.”
- We have issued or entered into land grant confirmation letters or a land grant contract, but have not paid up all the land premium and have not obtained the land use right certificates.
- We are in the process of applying for relevant approvals and registration of this acquisition. Upon receipt of approvals and completion of registration, we expect to increase our ownership in the Shanghai New Jiang Wan Project from 35% to 50%. See “— Recent Developments” and “— Properties Under Development — Shanghai New Jiang Wan Project, Shanghai.”
- We entered into land grant confirmation letters for the land related to this project, but have not paid up all the land premium and have not obtained the land use right certificates. We have commenced development activities, but have not commenced construction for this project.
- We entered into a trust financing arrangement to finance this project. See “Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements — Shanghai Pudong Trust Financing.” We entered into land grant contracts for the land related to this project, but have not obtained the land use right certificates. We have commenced development activities, but have not commenced construction for this project.
- We entered into land grant contracts for the land related to this project, but have not obtained the land use right certificates. We have commenced development activities, but have not commenced construction for this project.

As of December 31, 2010, there were also several parcels of land related to The Sapphire, Foshan Project, Chengdu Jinjiang Project, Shanghai Jiading E-06 Project, Shanghai Pudong Project, Tianjin Jinnan Project and Lie De project, for which we have been issued or entered into land grant confirmation letters or land grant contracts but have not obtained the land use rights certificates.

We cannot assure you that we will be able to obtain the land use rights certificates with respect to these parcels of land in a timely manner or at all, and we have not commenced any construction or preparation of construction relating to these parcels of land. Under the Law of the Administration of Urban Property of the PRC and relevant pre-sale regulations, we are not allowed to engage in any pre-sale activities prior to, among other things, obtaining land use rights certificates.

The following are detailed descriptions of our 25 projects as of December 31, 2010. The commencement date relating to each project or each phase of a project refers to the date on which construction commenced on the first building of the project or phase. The completion date set out in the descriptions of our completed property developments refers to the date on which the Completed Construction Works Certified Report was obtained for each project (or each phase of a multi-phase project). For projects or phases under development or held for future development, the completion date of a project or phase reflects our best estimate based on our current development plans.

The following map illustrates the locations of our 25 projects and the total saleable GFA attributable to the Group of these locations as of December 31, 2010.



Residual Properties

Historically, we have completed a number of residential projects in Guangzhou. These projects include Yuhui Garden, Yuhua Garden, La Bali, Color of United, City of Perfection, The Cosmos, King Peak Garden, Ma'an Mountain No. 1, Jinghu Garden and Yucui Garden. These projects included a small portion of commercial and retail properties which we held for long-term investment purposes. As of December 31, 2010, saleable units of these projects had been substantially sold out, and an aggregate total saleable GFA attributable to the Group of approximately 27,000 sq.m. from these projects was held for investment purposes.

Completed Projects

Waterfront Mansion (上城灣畔), Guangzhou

Waterfront Mansion is a mid to high-end residential development located in Conghua District in Guangzhou. The project enjoys river view and is surrounded by a wide range of ancillary facilities and a well-developed transportation network. It is close to the city bus terminal and the light rail system, enabling convenient access to other parts of Guangzhou. The project features a large residential community, including high-rise residential buildings and townhouses totaling approximately 2,200 housing units. The project occupies a total site area of approximately 228,229 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 42,000 sq.m., all of which was held for sale. We have 100% ownership in this project.

International Finance Place (國際金融廣場), Guangzhou

International Finance Place is a Grade A office building development located in the heart of Pearl River New Town in Tianhe District, Guangzhou. The project overlooks the Pearl River and the Haixinsha Plaza adjacent to the Pearl River. It is also conveniently located near the subway station on both Line No. 3 and Line No. 5 of Guangzhou. The project features premium office space which we lease to domestic and foreign banks, multi-national corporations, diplomatic institutions, and retail properties. The project occupies a total site area of approximately 7,262 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 61,000 sq.m., all of which was held for investment purposes (office). As of the same date, we retained approximately 5,600 sq.m. for self-use. We have 100% ownership in this project.

Four Points by Sheraton Guangzhou, Dongpu (東圃福朋喜來登酒店), Guangzhou

Four Points by Sheraton Guangzhou, Dongpu is a four-star hotel located to the south of Linkreit International Business Development Center in Tianhe Dongpu, Guangzhou. We engaged the Starwood Hotels Group for the management of this hotel to ensure quality of our hotel services. The hotel features approximately 300 guest rooms. The hotel occupies a total site area of approximately 6,000 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 35,000 sq.m., all of which was held for investment purposes (hotel). We have 100% ownership in this project.

The City Island (朗悅灣), Suzhou

The City Island is a mid to high-end residential development located in Xiangcheng District, Suzhou. Designed by renowned international designers, the project situates on two islands within Pearl Lake and is surrounded by natural garden and water views. The project is expected to feature mid to high-end residential buildings as well as waterfront townhouses and villas. The project

occupies a total site area of approximately 196,064 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 28,000 sq.m., all of which was held for sale. We have 100% ownership in this project.

Projects Under Development

Sky Ville (天湖峰境), Guangzhou

Sky Ville is a large-scale residential development located in Beixing Town, Huadu District in Guangzhou. The project is located in close proximity to the Dragon Lake with convenient access to both the city center and Baiyun International Airport. The project is expected to feature residential units, including villas, townhouses and high-rise apartments, and a wide range of communal facilities for recreational, educational and commercial purposes. The project will also include the five-star Huadu Sheraton Resort to be managed by the Starwood Hotels Group with approximately 102 villa-styled guest rooms. The project occupies a total site area of approximately 485,296 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 179,000 sq.m., of which approximately 163,000 sq.m. was held for sale and 16,000 sq.m. was held for investment purposes (hotel). We have 100% ownership in this project.

The Apex (廣州領峰), Guangzhou

The Apex is a high-end integrated development located at the junction of Jinhui Road and Xingsheng Road, in Pearl River New Town in Tianhe District, Guangzhou. The project is expected to feature luxurious high-rise residential buildings, serviced apartments and garden landscapes designed by renowned international designers. The project will also include the five-star W Guangzhou Hotel with approximately 316 guest rooms and the Residences at the W Guangzhou with approximately 144 serviced apartment suites. The W Guangzhou Hotel and the Residences at the W Guangzhou will be managed by the Starwood Hotels Group. The project occupies a total site area of approximately 22,626 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 74,000 sq.m., all of which was held for investment purposes (hotel and serviced apartments). We have 100% ownership in this project.

International Creative Valley (科匯金谷), Guangzhou

International Creative Valley is an office building development located on Science Avenue, at the heart of the Science Town area in Luogang Development Zone, Guangzhou. It enjoys a well-developed transportation network, providing convenient access to Pearl River New Town. The project is expected to feature a multi-functional office complex designed with an environmental-friendly focus and state-of-the-art information system infrastructure, as well as serviced apartments. The project occupies a total site area of approximately 150,082 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 225,000 sq.m., all of which was held for sale. We have 100% ownership in this project.

Zengcheng Summit (譽山國際), Guangzhou

Zengcheng Summit is a large-scale integrated development located in Xin Tang Town, Zengcheng District in Guangzhou. The project employs designs by renowned international designers and is expected to feature a combination of high-rise residential buildings, villas and office buildings, together with a wide range of communal facilities for recreational, educational and commercial purposes. The project will also include a five-star Zengcheng Sheraton Hotel. The project occupies a total site area of approximately 1,971,126 sq.m. As of December 31, 2010, total saleable GFA

attributable to the Group was approximately 2,507,000 sq.m., of which approximately 2,356,000 sq.m. was held for sale and 151,000 sq.m. was held for investment purposes (office, convention center, shopping mall and hotel). We have 100% ownership in this project. A total of approximately 136,000 sq.m. of GFA is to be payable to Dongling Holding Co., Ltd. upon completion as part of the consideration for the acquisition of this project.

D3-4 (D3-4項目), Guangzhou

D3-4 is a high-end serviced apartment development located in the northern end of Pearl River New Town in Tianhe District, Guangzhou. The project is surrounded by residential and commercial establishments and enjoys a well-developed transportation network. The project is expected to feature a high-rise serviced apartment building with integrated commercial floors. The project occupies a total site area of approximately 5,162 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 34,000 sq.m., all of which was held for sale. We have commenced development activities but have not commenced construction for this project. Ownership of this project is held under a trust arrangement, see “Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements — Guangzhou Trust Financing.”

J2-2 (J2-2項目), Guangzhou

J2-2 is a high-end integrated development located in the heart of the central business district of Pearl River New Town in Tianhe District, Guangzhou. The project is expected to feature premium office spaces. The project occupies a total site area of approximately 8,066 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 72,000 sq.m., all of which was held for sale. We have commenced development activities but have not commenced construction for this project. We have 50% ownership in this project. See “—Property Development — Joint Venture Operations.”

Lie De (獵德項目), Guangzhou

Lie De is a high-end integrated development located at the center of Pearl River New Town, in the original Lie De Village site, in Guangzhou. The Project is expected to feature premium office buildings, shopping malls, serviced apartments and a five-star hotel. The project occupies a total site area of approximately 114,176 sq.m. We entered into a land grant contract but have not obtained the land use right certificate for the land related to this project. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 155,000 sq.m., of which approximately 142,000 sq.m. was held for sale and 13,000 sq.m. was held for investment purposes (shopping mall and hotel). We have 33% ownership in this project. See “—Property Development — Joint Venture Operations.”

The Up Blue Town (晶藍上城), Suzhou

The Up Blue Town is a mid to high-end residential development located in Kunshan, Suzhou. It is 31 kilometers from Shanghai city center. The project is expected to feature high-rise residential buildings. The project occupies a total site area of approximately 73,581 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 52,000 sq.m., all of which was held for sale. We have 100% ownership in this project.

The Sapphire (峰匯國際), Suzhou

The Sapphire is a high-end integrated development located on Renmin Road, in Pingjiang New City, adjacent Huoli Island in Suzhou. The project is surrounded by a well-developed transportation network. It is expected to feature high-rise residential buildings, premium office buildings, hotel, retail shops and a shopping mall. The project occupies a total site area of approximately 348,449 sq.m. We have not obtained the land use right certificate for the land related to this project with a site area of approximately 86,777 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 647,000 sq.m., of which approximately 552,000 sq.m. was held for sale and approximately 95,000 sq.m. was held for investment purposes (shopping mall). We have 100% ownership in this project.

Suzhou Apex (蘇州領峰), Suzhou

Suzhou Apex is a high-end integrated project located in Mudu Town, Suzhou. The project enjoys direct access to Jinfeng Road station of the Suzhou Light Rail Line No. 1. The project is expected to feature residential, commercial and retail properties and will include a star-rated hotel. The project occupies a total site area of approximately 170,323 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 127,494 sq.m., of which approximately 87,697 sq.m. was held for sale and 39,797 sq.m. was held for investment purposes (shopping mall and hotel). We have 29.9% ownership in this project. Ownership of this project is also held under a trust arrangement, see “Description of Material Indebtedness and Other Obligations — Trust Financing Arrangements — Suzhou Trust Financing.”

The Vision of the World (萬景峰), Chengdu

The Vision of the World is a mid to high-end residential development located in the Gao Xin West District in Chengdu. The project benefits from a well-developed transportation network, providing convenient access to the city center, and the abundance of surrounding communal facilities such as schools, universities and hospitals. The project is expected to feature mid to high-end residential buildings. The project occupies a total site area of approximately 117,518 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 456,000 sq.m., all of which was held for sale. We have 100% ownership in this project.

Chengdu Cosmos (成都譽峰), Chengdu

Chengdu Cosmos is a high-end integrated development located in the central business district of Tian Fu New Town in southern Chengdu. The project is expected to feature luxurious high-rise residential buildings, premium office buildings, a five-star hotel and retail properties. The project occupies a total site area of approximately 186,705 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 825,000 sq.m., of which approximately 695,000 sq.m. was held for sale and 130,000 sq.m. was held for investment purposes (shopping mall and hotel). We have 100% ownership in this project.

Chengdu Jinjiang Project (成都錦江項目), Chengdu

Chengdu Jinjiang Project is an integrated development located in Pan Cheng Gang Pian Qu in Jinjiang District, Chengdu, close to the intersection of Line 2 and Line 9 of the Chengdu Metro. The project is expected to feature residential and commercial developments. The project occupies a total site area of approximately 190,253 sq.m. We entered into land grant confirmation letters for the land related to this project, but have not paid up all the land premium and have not obtained the land use

right certificates. We have commenced development activities but have not commenced construction for this project. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 450,000 sq.m., of which approximately 385,000 sq.m. was held for sale and approximately 65,000 sq.m. was held for investment purposes (commercial). We have 50% ownership in this project. See “— Joint Venture Operations — Chengdu Joint Venture.”

Fragrant Seasons (a.k.a. Sound of the Soul) (香悦四季), Beijing

Fragrant Seasons is a mid to high-end residential development located in the Shunyi District, one of the four satellite towns of Beijing. The project lies on the north of Olympic Road and is adjacent to the Olympic Water Park, and is surrounded by the Beijing Country Golf Club and a wide range of recreational facilities and five-star hotels. The project also enjoys a well-developed transportation network and is designed by renowned international designers. The project is expected to feature a low density residential community comprising low-rise apartments and villas. The project occupies a total site area of approximately 376,150 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 460,000 sq.m., all of which was held for sale. We have 100% ownership in this project.

Lingshui Project (海南陵水項目), Hainan

Lingshui Project is an integrated development located in Lingshui, Hainan. The project is expected to feature residential apartments, villas and hotels. The project occupies a total site area of approximately 531,336 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 293,000 sq.m., of which approximately 253,000 sq.m. was held for sale and 40,000 sq.m. was held for investment purposes (hotel). We have commenced development activities but have not commenced construction for this project. We have 100% ownership in this project.

Tianjin Jinnan Project (天津津南項目), Tianjin

Tianjin Jinnan Project is a large integrated development located in Jinnan District, Tianjin, bounded by rivers on three sides (Hai River and Yue Ya River), with close access to Line 6 of Tianjin Metro. The project is expected to feature residential, commercial and hotel developments. The project occupies a total site area of approximately 1,289,227 sq.m. We entered into land grant contracts for the land related to this project, but have not obtained the land use right certificates. We have commenced development activities, but have not commenced construction for this project. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 750,000 sq.m., of which approximately 700,000 sq.m. was held for sale and approximately 50,000 sq.m. was held for investment purposes (commercial and hotel). Ownership of this project is held under a trust arrangement, see “— Joint Venture Operations — Tianjin Joint Venture.”

Shanghai Pudong Project (上海浦東項目), Shanghai

Shanghai Pudong Project is a commercial development located in Pudong New Area, Shanghai, close to Houtan station on Line 7 of the Shanghai Metro, with a prime view of the Huangpu river. The project is expected to feature two office buildings. The project occupies a total site area of approximately 26,053 sq.m. We entered into land grant contracts for the land related to this project, but have not obtained the land use right certificates. We have commenced development activities, but have not commenced construction for this project. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 78,000 sq.m., all of which was held for sale. We have 100% ownership in this project.

Shanghai Putuo Project (上海普陀項目), Shanghai

Shanghai Putuo Project is an integrated development located in the northwest of Zhenru Subcenter, Putuo District, Shanghai, close to Zhenru station on Line 11 of the Shanghai Metro. The project is expected to feature high-end residential apartments, serviced apartments and large shopping malls. The project occupies a total site area of approximately 42,045 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 78,700 sq.m., of which 57,000 sq.m. was held for sale and 21,700 sq.m. was held for investment purposes (shopping mall). We have 50% ownership in this project.

Shanghai Jiading E-06 Project (上海嘉定E-06項目), Shanghai

Shanghai Jiading E-06 Project is an integrated development located in Jiading New City, Jiading District, Shanghai, close to Jiading station on Line 11 of the Shanghai Metro. The project is expected to feature residential, office and commercial units. The project occupies a total site area of approximately 88,415 sq.m. We entered into land grant contracts for the land related to this project, but have not obtained the land use right certificates. We have commenced development activities, but have not commenced construction for this project. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 110,500 sq.m., of which 74,200 sq.m. was held for sale and 36,300 sq.m. was held for investment purposes (office and commercial). We have 100% ownership in this project.

Shanghai New Jiang Wan Project (上海新江灣項目), Shanghai

Shanghai New Jian Wan Project is an integrated development located in New Jiang Wan, Yangpu District, Shanghai, close to New Jiang Wan station on Line 10 of the Shanghai Metro as well as access to Line 3 and Line 5. It is also close to Fudan University's new campus. The project is expected to feature high-end residential units, commercial and office buildings and hotels. The project occupies a total site area of approximately 142,664 sq.m. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 94,500 sq.m., of which 86,500 sq.m. was held for sale and 8,000 sq.m. was held for investment purposes (office and hotel). See “— Joint Venture Operations — Shanghai Joint Venture.” As of December 31, 2010, we had 35% ownership in this project. We are in the process of applying for relevant approvals and registration of this acquisition. Upon receipt of approvals and completion of registration, we expect to increase our ownership in the Shanghai New Jiang Wan Project from 35% to 50%. See “— Recent Developments — Purchase of Shares in the Shanghai Project Co.”

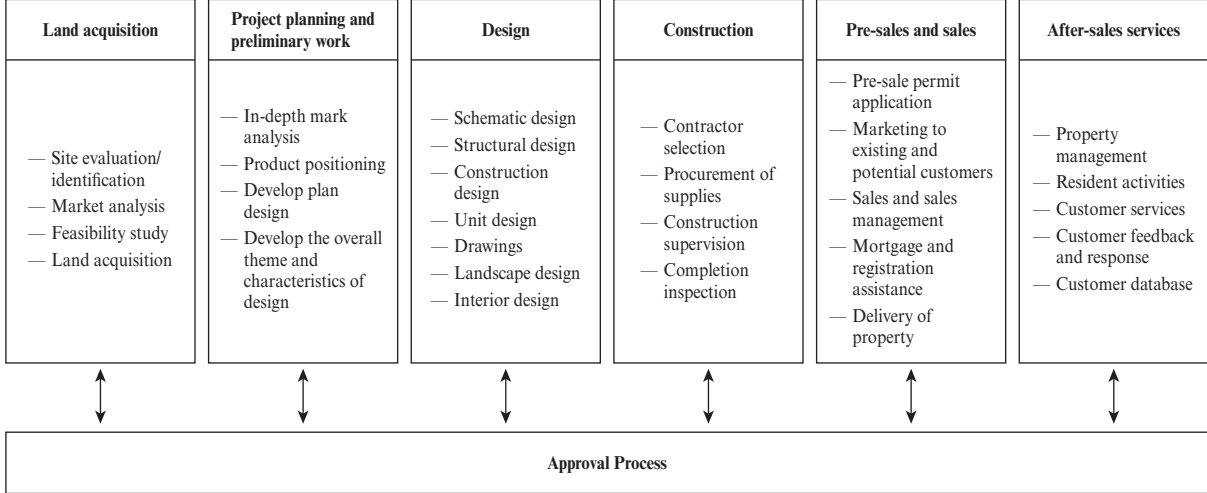
Projects held for Future Development

Foshan Project (佛山地塊項目), Guangzhou

Foshan Project is expected to be a high-end residential and commercial development located in Chancheng District in Foshan, Guangzhou. The project lies above the subway station and is 40 minutes away from Guangzhou city center by car. The project is expected to feature high-end residential buildings, office buildings and shopping malls. The project occupies a total site area of approximately 748,877 sq.m. We have been issued or entered into land grant confirmation letters or a land grant contract, but have not paid up all the land premium and have not obtained the land use right certificates. As of December 31, 2010, total saleable GFA attributable to the Group was approximately 560,000 sq.m., all of which was held for sale. We have 20% ownership in this project. See “— Property Development — Joint Venture Operations.”

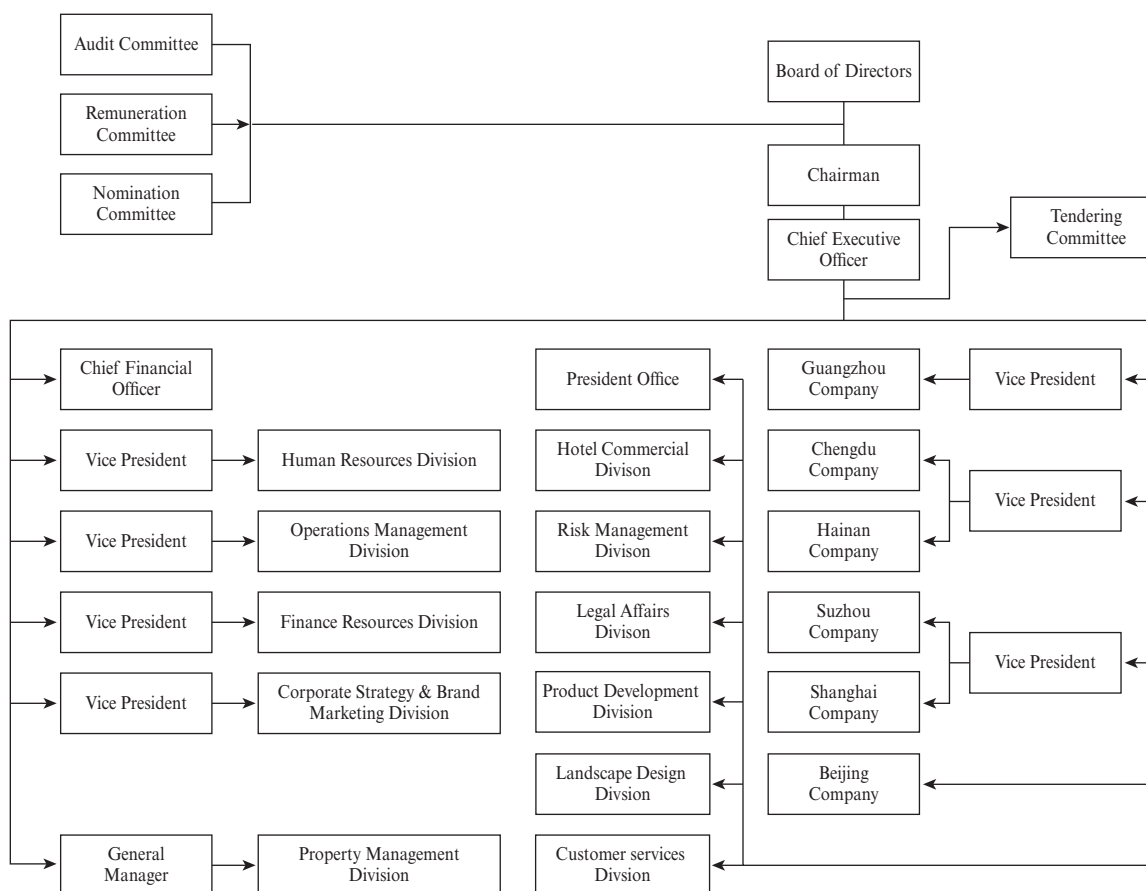
Property Development

We primarily engage in the development and sale of quality residential properties in Guangzhou, Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan Province. Although each project development is unique and is designed to cater to the preferences of specific target markets, the diagram below summarizes the major stages typically involved in the development of a property.



Project Management

We have established specialized divisions to supervise and manage the major stages of all our property developments. Our Chairman, Kong Jian Min, and our senior management team work closely with the head of each of our divisions to provide management guidance. The divisions at the Group level are human resources division, operations management division, finance resources division, corporate strategy & brand marketing division, customer services & property division, commerce operations division, hotel management division, risk management division and legal affairs division. The primary divisions of each of our regional companies include finance division, sales and marketing division, design division, construction division, operations management division, customer service division, and human resources and administration division. We seek to enhance our operating efficiency, optimise our capacities and resources, enhance our negotiating power with suppliers and contractors and facilitate the sharing of resources and expertise among various projects in such areas as design, construction, marketing and sales through this management system. The chart below sets forth the structure of our management.



Our operations management division plays a key role in managing and coordinating each stage of a development. It participates in all major steps of our project development, and is primarily responsible for timing, budget and cost control. The involvement of our operations management division in the entire process of a project development enables us to achieve management efficiency and establish development strategies that follow market preferences and trends closely. We also set up project companies to jointly manage project development with our joint venture partners.

Joint Venture Operations

We have developed and are developing projects jointly with other entities through cooperation agreements. See “— Projects Under Development — J2-2, Guangzhou,” “— Projects Under Development — Lie De, Guangzhou” “— Projects held for Future Development — Foshan Project, Guangzhou.” These cooperation arrangements, which involve the use of the assets and other reserves of the Group and our development partners, without the establishment of a separate entity, are referred to as jointly-controlled operations. Under such arrangements, assets remain under the separate ownership and control of each party. Certain of the construction costs and/or payment for land premium of the jointly-controlled operations are contributed by our development partners. Depending on the terms of the relevant agreements with our development partners, if it is specified that the land is contributed by the development partner and we are responsible for all construction costs of the relevant project, then we record on our financial statements all the construction costs incurred by us on that jointly-controlled operation. Should the agreements require the construction costs to be shared among us and our development partners in an agreed proportion, the construction costs related to the development projects are recorded in our books in the proportion established in the relevant cooperation agreement. Revenue and expenses incurred in common are shared by the parties according to the contractual arrangement. We recorded our payment for land premium and construction costs for our jointly-developed projects, J2-2, Lie De and Foshan Project, based on the proportions attributable to us in the relevant cooperation agreements. The following sets forth certain principal terms of our existing cooperation agreements for our jointly-developed projects, namely, J2-2, Lie De and Foshan Project.

Foshan Project I Agreement

On March 17, 2010, we and Lyntondale Holdings Limited, a BVI company of which we own 20%, and Rich Come Enterprises Limited, our wholly-owned subsidiary, entered into a joint-venture agreement (the “Foshan Project I Agreement”) with Sun Hung Kai Development (China) Limited for the acquisition of three parcels of land located in Foshan, Guangzhou with a total site area of approximately 459,281 sq.m. The total GFA for these three parcels of land was expected to be approximately 1,227,952 sq.m. The three parcels of land had been acquired through public listing-for-sale by Channel Win Investment Limited (“Channel”), a wholly-owned subsidiary of Lyntondale Holdings Limited. Three project companies were set up to develop these land parcels.

The total land premium for the three parcels of land amounted to RMB3.46 billion, of which RMB2.71 billion was still outstanding as of the date of the Foshan Project I Agreement. 80% of the outstanding amount was to be financed by interest-free shareholder’s loan from Sun Hung Kai Development (China) Limited, and 20% of the outstanding amount was to be financed by interest-free shareholder’s loan from Rich Come Enterprises Limited. Pursuant to the Foshan Project I Agreement, if by 2012 and 2013, the land premium can be settled in whole or in part with proceeds from pre-sales and sales, respectively, the financing obligations of Sun Hung Kai Development (China) Limited and Rich Come Enterprises Limited in connection with shareholder’s loan will be mitigated or released proportionately.

Pursuant to the Foshan Project I Agreement, the project companies shall obtain bank financing to meet their respective financial needs during the construction of the projects. When a guarantee is required, Sun Hung Kai Development (China) Limited and Rich Come Enterprises Limited shall only provide the same in proportion to their shareholding in Lyntondale Holdings Limited severally. If for any reason such bank financing is not available, Sun Hung Kai Development (China) Limited and Rich Come Enterprises Limited shall provide the financing in the form of shareholder's loan in proportion to their shareholding in Lyntondale Holdings Limited or through capital injection.

According to the Foshan Project I Agreement, Sun Hung Kai Development (China) Limited shall have the right and power to manage the daily and general business operations of the project companies. In addition, Sun Hung Kai Development (China) Limited will provide sales consultancy services to the project companies.

Foshan Project II Agreement

On March 17, 2010, we and High Ascent Enterprises Limited ("High Ascent"), a wholly-owned subsidiary of KWG and Bonserry Investments Limited, a BVI company of which we own 20%, entered into a joint-venture agreement (the "Foshan Project II Agreement") with Sun Hung Kai Development (China) Limited for the acquisition of four parcels of land located in Foshan, Guangzhou with a total site area of approximately 523,729 sq.m. The total GFA for these four parcels of land was expected to be approximately 1,554,212 sq.m. The four parcels of land had been acquired through public listing-for-sale by Garry Limited ("Garry"), a wholly-owned subsidiary of Bonserry Investments Limited. Four project companies were set up to develop these land parcels.

The total land premium for the four parcels of land amounted to RMB4.705 billion, of which RMB3.755 billion was still outstanding as of the date of the Foshan Project II Agreement. 80% of the outstanding amount was to be financed by interest-free shareholder's loan from Sun Hung Kai Development (China) Limited, and the remaining 20% of the outstanding amount was to be financed by interest-free shareholder's loan from High Ascent. Pursuant to the Foshan Project II Agreement, if by 2014 and 2017, the land premium can be settled in whole or in part with proceeds from pre-sales and sales, respectively, the financing obligations of Sun Hung Kai Development (China) Limited and High Ascent in connection with shareholder's loan will be mitigated or released proportionately.

Pursuant to the Foshan Project II Agreement, the project companies shall obtain bank financing to meet their respective financial needs during the construction of the projects. When a guarantee is required, Sun Hung Kai Development (China) Limited and High Ascent shall only provide the same in proportion to their shareholding in Bonserry Investments Limited severally. If for any reason such bank financing is not available, Sun Hung Kai Development (China) Limited and High Ascent shall provide the financing in the form of shareholder's loan in proportion to their shareholding in Bonserry Investments Limited or through capital injection.

According to the Foshan Project II Agreement, Sun Hung Kai Development (China) Limited shall have the right and power to manage the daily and general business operations of the project companies. In addition, Sun Hung Kai Development (China) Limited will provide sales consultancy services to the project companies.

Lie De Agreement

On October 8, 2007, we and Precious Wave Investments Limited, a BVI company of which we own 50%, and Quality Express Limited, a Hong Kong company wholly-owned by Precious Wave, entered into a joint-venture agreement (the "Lie De Agreement") with Guangzhou R&F Properties

Co., Ltd. and Sun Hung Kai Properties Limited for the acquisition of a parcel of land located in Pearl River New Town, Guangzhou with a total site area of approximately 114,176 sq.m. As of December 31, 2010, the total GFA for this parcel of land was approximately 465,000 sq.m. The parcel of land had been acquired by Guangzhou R&F Properties Co., Ltd. and Guangzhou Hejing Real Estate Development Limited. It is being developed by Guangzhou Fujing Real Estate Development Limited.

Pursuant to the Lie De Agreement, prior to the establishment of Guangzhou Hejing Real Estate Development Limited (the “JV Co”) as the developer of the land and prior to its conversion into a Sino-foreign equity joint venture, the total land premium for the parcel of land of RMB4.6 billion was to be paid in installments by each of Guangzhou R&F Properties Co., Ltd., Sun Hung Kai Properties Limited and us in the proportion of 33.34%, 33.33% and 33.33%, respectively.

Pursuant to the Lie De Agreement, after the establishment of JV Co, the outstanding land premium was to be paid by the funds held by the JV Co in the form of registered capital. To the extent that such funds are not sufficient, the outstanding land premium was to be paid by advances in RMB by each of Guangzhou R&F Properties Co., Ltd., Sun Hung Kai Properties Limited and us in the proportion of 33.34%, 33.33% and 33.33%, respectively, to the JV Co.

Pursuant to the Lie De Agreement, Sun Hung Kai Properties Limited, Guangzhou R&F Properties Co., Ltd. and us shall, through Precious Wave Investments Limited, Quality Express Limited and JV Co, jointly develop the land.

J2-2 Agreement

On May 15, 2007, Guangzhou Minghe Enterprise Co., Ltd., Daygain International Limited (together, as “Party A”) and our subsidiary Guangzhou Tianjian Real Estate Development Limited (as “Party B”) entered into a joint-venture agreement (the “J2-2 Agreement”) for the acquisition of a parcel of land located in Pearl River New Town, Guangzhou with a total site area of approximately 8,066 sq.m. The total GFA for this parcel of land was expected to be 145,188 sq.m. The parcel of land had been acquired by Party A and Party B. As of December 31, 2010, the total GFA for this parcel of land was 171,288 sq.m.

Pursuant to the J2-2 Agreement, the land premium for the parcel of land was to be paid for by Party A and Party B in equal shares. In addition, Party A was to be responsible for the demolition and rental compensation fee of up to RMB283.2 million and Party B was responsible for providing approximately 43,556 sq.m. of GFA for resettlement purposes. No joint-venture company was set up and each of Party A and Party B was to develop their respective parcels of land separately.

Tianjin Joint Venture

On August 25, 2010, we entered into a shareholders’ agreement with Agile Property Holdings Limited, Guangzhou R&F Properties Co., Ltd., and Shimao Property Holdings Limited through each of our indirect wholly-owned PRC subsidiaries, Beijing KWG Property Development Co., Ltd. (“Beijing KWG”), Foshan Agile Real Estate Development Co., Ltd., Beijing R&F Property Development Co., Ltd. and Shanghai Shimao Jianshe Co., Ltd., respectively (together with Beijing KWG, each a “Tianjin JV Party”), pursuant to the establishment of a PRC joint venture company, Tianjin Jinnan New Town Real Estate Development Co., Ltd. (the “Tianjin JV Co”), to acquire and develop a parcel of land located in Xian Shui Gu Town, Jinnan District, Tianjin with a total site area

of approximately 1,289,227 sq.m. (the “Tianjin Land”). The total GFA for the Tianjin Land was expected to be approximately 3,011,000 sq.m. The Tianjin Land had been acquired through a public bidding process and is being developed by the Tianjin JV Co.

The registered capital of the Tianjin JV Co is RMB3,667.3 million and each Tianjin JV Party holds a 25% shareholding in the Tianjin JV Co, subject to a trust financing arrangement. The Tianjin JV Parties had contributed registered capital of RMB3,667.3 million to the Tianjin JV Co in equal shares. The consideration for the acquisition of the Tianjin Land is RMB7,050.0 million which will be funded by the Tianjin JV Parties by way of equity and/or shareholders’ loan or another form of financing to be agreed by the Tianjin JV Parties, and will be paid in stages and in such amounts as stipulated under the relevant land grant contract. The Tianjin JV Parties will share the profit and loss of the Tianjin JV Co in proportion to their respective capital contribution to the Tianjin JV Co. Ownership of the Tianjin JV Co is held under a trust arrangement.

In August 2010, Beijing KWG Property Development Co., Ltd, Foshan Agile Real Estate Development Co., Ltd., Beijing R&F Property Development Co., Ltd. and Shanghai Shimao Jianshe Co., Ltd. (each a “Tianjin JV Party”) entered into a trust agreement with Ping An Trust Limited Company (or “Ping An Trust”, as trustee) to set up a trust financing arrangement to provide financing to the Tianjin JV Co.

In September 2010, Beijing KWG entered into an equity transfer agreement with the Tianjin JV Parties and Ping An Trust pursuant to which Beijing KWG agreed to transfer its 24.54% equity interest in the Tianjin JV Co to Ping An Trust for a consideration of RMB900 million. The proceeds from the transfer of equity interest would be used to subscribe, indirectly, for junior units in the trust scheme known as Pin’an Fortune • Jia Yuan No. 19 Collective Trust Plan (平安財富 • 佳園19號集合信託計劃) established by Ping An Trust in the PRC. The principal purpose for establishing the trust is to raise funds for the development of the Tianjin Jinnan Project. The term of the trust financing arrangement is 18 months. On expiry of the term of the trust, each holder of the senior units of the trust would be entitled to a fixed return less the fees and expenses of the trust attributable to such holder. After holders of the senior units are paid in full, the trust will distribute the equity interest of the Tianjin JV Co in kind to the holder of the junior units or its designated nominees.

Shanghai Joint Venture

On November 5, 2010, we and Guangzhou R&F Properties Co., Ltd., together as purchasers on a 50/50 basis, entered into a share purchase agreement, with HCC Interests LP and Hines International Real Estate Fund as sellers, to acquire the entire issued and paid up capital of Hines Shanghai New Jiang Wan Development Co., Ltd. (the “Shanghai JV Co”). The Shanghai JV Co is a Cayman investment holding company which holds a 70% interest in the Shanghai Project Co, a Sino-foreign joint venture company whose registered capital is RMB855.0 million, which in turn holds four parcels of land located in New Jiang Wan, Yangpu District, Shanghai (the “Shanghai Land”). The remaining 30% interest in the registered capital of the Shanghai Project Co is held by SCC. The sellers continued to manage the construction, delivery and handover of existing properties developed and was being developed on the Shanghai Land, excluding which, the Shanghai Land has a total site area of approximately 142,664 sq.m. for our development of residential and commercial properties with total GFA of approximately 271,343 sq.m.

The consideration for the purchase of the Shanghai JV Co is US\$353.5 million, which was paid by us and Guangzhou R&F Properties Co., Ltd. as to half each, from internal resources. On January 20, 2011, we entered into an equity transfer agreement with Shanghai R&F and SCC to acquire the 30% registered capital of the Shanghai Project Co. We are in the process of applying for relevant

approvals and registration of this acquisition. Upon receipt of approvals and completion of registration, we expect to increase our ownership in the Shanghai New Jiang Wan Project from 35% to 50%. See “— Recent Developments — Purchase of Shares in the Shanghai Project Co.”

Shanghai Putuo Joint Venture

On February 1, 2010, Shanghai Greenland (Group) Co., Ltd. (“Shanghai Greenland”) and Shanghai Hejing Property Development Co., Ltd. (“Shanghai Hejing”) entered into a registered capital increase agreement under which Shanghai Hejing will contribute a capital increase of approximately RMB10.0 million into the Shanghai Putuo project company, Shanghai Zhendong Property Development Co., Ltd., to increase the registered capital of the project company to RMB20.0 million. Shanghai Hejing and Shanghai Greenland each held 50% equity interest in the project company. In March 2010, Shanghai Hejing and Shanghai Greenland contributed further capital into the project company, increasing the registered capital of the project company to RMB1,060.0 million. After the capital increase, Shanghai Hejing and Shanghai Greenland each holds 50% equity interest in the project company.

According to the articles of association of the project company, Shanghai Hejing and Shanghai Greenland will share in the profit in accordance with their equity interests in the project company. If any one party fails to contribute capital into the Shanghai Putuo Project in accordance with its share of equity interests in the project company, profit sharing will only occur in proportion to the actual amount each party has contributed to the project.

Chengdu Joint Venture

On November 10, 2010, we and Hongkong Land China Holdings Limited (“HKL”), through our onshore and offshore subsidiaries, established a 50/50 joint venture, to jointly develop a parcel of land in Pan Cheng Gang Pian Qu in Jinjiang District, Chengdu, Sichuan Province (the “Chengdu Land”) which has a site area of approximately 190,253 sq.m. for the development of residential and commercial properties with total GFA of approximately 900,091 sq.m. Chengdu Kaiyu Property Development Limited (“Chengdu Kaiyu”), our indirect wholly-owned PRC subsidiary, and Total Champ Limited (“Total Champ”), a Hong Kong company which is ultimately owned as to approximately 28.57% by us and as to approximately 71.43% by HKL, have successfully bid for the Chengdu Land at a price of RMB3,780.4 million. On November 10, 2010, an auction confirmation was signed by Chengdu Land Auction Center, Chengdu Kaiyu and Total Champ confirming the successful bid for the Chengdu Land. We and HKL have established a Sino-foreign joint venture enterprise in the PRC, Chengdu Premium Property Development Company Limited (the “Chengdu JV Co”) through Chengdu Kaiyu and Total Champ, owned as to 30% by Chengdu Kaiyu and as to 70% by Total Champ for the purpose of, among others, holding and developing the Chengdu Land. Through this structure, we and HKL each have an effective interest of 50% in the Chengdu JV Co.

The consideration for the acquisition of the Chengdu Land is to be paid in stages and in such amounts as stipulated in the relevant land grant contract which is yet to be entered into. The consideration will be funded by us and HKL to the Chengdu JV Co in proportion to our respective effective interests in the Chengdu JV Co by way of equity or other forms of financing to be agreed. We will fund our contribution through internal resources.

Site Selection and Product Positioning

Site selection is fundamental to the success of a property development. Therefore, we devote significant management resources to site selection. Prior to purchasing a parcel of land, our senior management will conduct market research on the potential demand for a property development on such site, determine the overall market positioning, establish a blueprint of the project design, and calculate a target average selling price and gross profit margin for the project. We believe that all these pre-purchase measures help us acquire land prudently and develop our projects with clear market positioning from the beginning.

Historically, our focus was on developments in Guangzhou. We typically select sites in districts or neighborhoods that have a well-established infrastructure or that present significant opportunities for growth. We have also expanded to Suzhou, Chengdu, Beijing, Tianjin, Shanghai and Hainan Province, all of which are PRC property markets which we consider to have high-growth potential. The key factors we consider in site selection include:

- government development plans for the relevant site;
- access to the site and availability of infrastructural support;
- purchaser demand for properties in the relevant area;
- existing and potential property developments in the area;
- the convenience of the site, such as proximity to the city centre, airport, subway and commercial facilities;
- the surrounding environment, such as natural parks, greenery, lakes and rivers;
- the status of the land use rights with respect to the property that we may have interest to acquire in the secondary market;
- the terms of potential leases, including the potential for rent increases; and
- cost, investment and financial return, including cash flow and capital appreciation, of the potential developments.

We intend to continue to seek suitable opportunities in property development as they arise, we are subject to PRC laws and regulations which, among other things, restrict the land that will be made available in the future for luxury residential property developments. See “Regulations — The Land System of the PRC — Real Estate Loans.”

Land Acquisition

Prior to the implementation by the PRC government on July 1, 2002 of regulations requiring that land use rights for property developments be granted by tender, auction or listing-for-sale, we obtained most of our land use rights through transfer arrangements or cooperative arrangements with local governments or original grantees of land use rights. We also obtained our land use rights by way of tender, auction or listing-for-sale.

The PRC Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有土地使用權規定) issued by the PRC Ministry of Land and Resources provide that, from July 1, 2002, state-owned land use rights for the purposes of commercial use, tourism, entertainment and commodity residential property development in the PRC may be granted by the government only through public tender, auction or listing-for-sale. When land use rights are granted by way of a tender, an evaluation committee consisting of an odd number, being at least five, of members (including a representative of the grantor and other experts), evaluates and selects the tenders that have been submitted. When deciding whom to grant land use rights, the relevant authorities consider not only the tender price, but also the credit history and qualifications of the tenderer and its tender proposal. Where land use rights are granted by way of an auction, a public auction is held by the relevant local land bureau and the land use rights are granted to the highest bidder. When land use rights are granted by way of listing-for-sale, the relevant local land bureau will announce the conditions for granting the land use rights at designated land transaction centers and the bids submitted by the bidders. The land use rights are granted to the bidder submitting the highest bid by the end of the listing-for-sale period. If two or more parties request a competitive bidding, an on-site competitive bidding shall take place and the land use rights are granted to the highest bidder.

Starting November 1, 2007, a regulation issued by the Ministry of Land and Resources requires property developers to pay the land premium in full for the entire parcel under the land grant contract before they can receive a land use rights certificate. As a result, property developers are not allowed to bid for a large piece of land, make partial payment, and then apply for a land use rights certificate for the corresponding portion of land in order to commence development, which had been the practice in many Chinese cities. In March 2010, the Ministry of Land and Resources issued a circular imposing more stringent requirements on the payment of land premium by property developers. The circular stipulates that the minimum down-payment of land premium to 50% should be paid within one month after the signing of a land grant contract and the rest of the land premium should be fully paid within one year after the signing of a land grant contract. The implementation of the regulation will require property developers to maintain a higher level of working capital. Under this regulation, larger property developers generally are in a better position to compete for large pieces of land due to their stronger financial condition.

Under current regulations, original grantees of land use rights are typically allowed to sell, assign or transfer the land use rights granted to them in secondary markets, provided that (i) the assignment price has been fully paid in accordance with the assignment contract and a land use rights certificate has been obtained; and (ii) development has been carried out according to the assignment contract. If the land use rights are obtained by way of allocation, such land may be transferred through public tender, auction or listing-for-sale. In addition to acquiring land through government-organized tender, auction or listing-for-sale, we may also obtain land use rights through transfers from third parties or through cooperative arrangements with third parties in the secondary markets.

In both government bids and purchases in the secondary market, the purchase price typically includes all expenses required to deliver land use rights, such as resettlement expenses.

See “Regulations” in this offering memorandum for further information on rules and regulations relating to land acquisitions.

During 2008, 2009 and 2010, we primarily used three methods of land acquisition: (1) acquiring land use rights through government-organized tender, auction and listing-for-sale; (2) signing land use rights transfer agreements with third parties; and (3) acquiring target companies which have acquired land-use rights themselves.

As of December 31, 2010, we had a land bank of approximately 8.4 million sq.m. of attributable saleable GFA. We expect that our land bank will support our property development in the next several years.

Financing of Property Developments

The main sources of funding for our property developments include: internal funds, borrowings from banks (including PRC banks and overseas banks), trust financing, capital contributions from shareholders, share issuances and proceeds from sales and pre-sales. Our financing methods vary from project to project and are subject to limitations imposed by PRC regulations and monetary policies.

Since June 2003, commercial banks in China have been prohibited under PBOC guidelines from granting loans to fund the payment of land premiums and for the development of luxury residential properties which are residential properties with floor area ratio less than 1.0. In addition, the Bureau of Land Resources and Housing Management of Guangzhou Municipality indicated in 2001 that it intended to abolish the installment payment method in connection with the transfer of state-owned land use rights after December 31, 2003. As a result, property developers may only use their own internal funds and not any borrowings from PRC banks specifically to pay for land premiums and property developers in Guangzhou may be required to make a lump sum payment for the land premiums within the period stipulated in the land grant contracts. Property developers are also prohibited from using project loans obtained from any local banks to fund property developments outside that local region.

Prior to June 2003, we financed our payments of land premiums through a combination of borrowings from banks and proceeds from the sales and pre-sales of properties. Since June 2003, all of our payments of land premiums have been funded by proceeds from the sales and pre-sales of properties and sources other than project loans from banks.

In addition to restrictions on land premium financing, the PRC government also encourages property developers to use internal funds to develop their property projects. According to the Guidelines for Risk Management on Property Loans of Commercial Banks promulgated by the China Banking Regulatory Commission on August 30, 2004, the internal capital ratio, calculated by dividing the internal funds available by the total project capital required for a project, of a property developer who intends to borrow from commercial banks shall be no less than 35%, an increase of five percentage points from 30%, as previously required. Under guidelines jointly issued by the PRC Ministry of Construction and other PRC government authorities in May 2006, commercial banks in China may not lend funds to property developers with an internal capital ratio of less than 35%. Such increase in internal capital ratio will increase the internally sourced capital requirement for property developers, including us.

Project Design Work

With a view to achieving distinctive designs and operating efficiency, we typically outsource our design work to outside design experts. Our regional design division is responsible for selecting third-party design firms, taking into consideration their reputation, proposed designs and their past relationship with us. Our regional design division consists of engineers who supervise our architectural design, landscape design, mechanical engineering, and structural engineering. It coordinates and works closely with the selected design firms in major aspects of the design process, from master planning, design specifications and adjustments, to raw material selection. Our regional design division also monitors the work progress of the selected design firms to ensure that the project

designs meet our design specifications and are completed on time. In recent years, we have collaborated with leading domestic and international design firms to work on critical aspects of property development such as architectural design, landscape & environmental design and interior design.

We seek to distinguish our property developments by offering distinctive design features, and adding additional functions to our property developments. For example, in our Cosmos project, a constant temperature indoor swimming pool with underwater music system is expected to provide residents with enhanced enjoyment. Our Chengdu Cosmos project is the first residential project with private swimming pool in China.

Construction Work

We outsource our project construction work entirely to independent third parties. A tender process is usually required to select contractors for construction projects pursuant to national and local regulations, such as the Measures of the Implementation of the Tender Law of the PRC by Guangdong Province. Certain local governments in Guangdong Province may require that all construction projects go through a tender process. Without any long-term construction outsourcing contracts in place, our operations management division organizes a tender process to work with a number of qualified contractors to create a competitive environment. We consider their track record performance, work quality, proposed delivery schedules and costs in our selection process and seek to maintain our construction costs at a reasonable level without sacrificing quality.

The construction contracts we enter into with construction companies typically contain warranties with respect to quality and timely completion of the construction projects. We require construction companies to comply with PRC laws and regulations relating to the quality of construction as well as our own standards and specifications. Our operations management division monitors quality and cost control and construction progress closely during construction. In the event of a delay in construction or unsatisfactory quality of workmanship, we may require the construction companies to pay a penalty or provide other remedies. Our construction contracts typically provide for payments based on construction progress until a specified maximum percentage of the total contract sum is paid. Except for approximately 5% of the contract sum which we generally withhold for two years from completion to cover any potential expenses incurred as a result of any construction defects, the remaining balance is payable upon the issue of a certificate approving construction quality. Payments to contractors are determined primarily on the labor and material costs, fitting requirements and construction progress, and are adjustable under the construction contract.

Quality Control and Construction Supervision

We place a strong emphasis on quality control to ensure that our properties comply with relevant regulations and are of high quality. As part of our quality control procedures, we typically engage reputable design and construction companies to undertake our projects.

To ensure quality, we typically purchase certain fixture materials, such as bathroom taps, fittings, electrical appliances and stone fittings directly, while the general contractors procure the basic building materials, such as cement and steel. The general contractors procure most of the equipment necessary for each project in accordance with our specifications. Generally, we do not own any construction equipment and do not maintain any inventory of building materials. However, under certain circumstances, we may instruct the contractor to purchase raw materials from specific suppliers to ensure that the materials meet our particular requirements. When we procure supplies,

including equipment and materials, to be used for our projects directly, we generally solicit price quotes from at least two prospective suppliers, negotiate the price and other terms with them and finalize the purchase arrangements with the winning supplier by signing price confirmations for regular supplies and executing purchase agreement for major equipment and construction. We initiate each transaction by a purchase order and require the suppliers to deliver the supplies to locations specified by the relevant project companies. We believe that our centralized procurement system gives us more bargaining power and better cost control, enabling us to benefit from economies of scale.

To maintain quality control, we employ strict procedures for selection, inspection and testing of equipment and materials. Our project management teams inspect equipment and materials to ensure compliance with the contractual specifications before accepting the materials on site and approving payment. We reject materials which are below our standards or that do not comply with our specifications and return them to the suppliers.

To ensure quality and monitor the progress and workmanship of construction, each of our projects has its own on-site project management team, which comprises qualified engineers led by our project manager. Our project management teams provide on-site supervision of the project. The contractors are also subject to our quality control procedures, including appointment of internal on-site quality control engineers, examination of materials and supplies and on-site inspection. In addition, we have a quality control team which consists of qualified engineers and inspects the quality of the construction work on a selective basis. We also engage independent quality supervisory companies to conduct quality and safety control checks on all building materials and workmanship on site.

Our quality inspection team under the operations management division is responsible for the supervision of the construction of our properties and ensuring that our properties meet specified standards upon completion. In addition, prior to handing over a property to a purchaser, our sales and customer service personnel, together with our engineers and the relevant property management company inspect the property to ensure the quality of the completed property.

Pre-sale

We typically conduct pre-sales of our property units prior to the completion of a project or a project phase, subject to satisfaction of certain requirements set forth in laws and regulations governing pre-sales of properties. Under the Law of the Administration of Urban Property of the PRC (中華人民共和國城市房地產管理法) and the Administrative Measures Governing the Pre-sale of Urban Property (城市商品房預售管理辦法), as amended in 2001 and 2004, we must meet the following conditions prior to commencing any pre-sale of a particular property development:

- the land premium has been fully paid and the relevant land use rights certificates have been obtained;
- the required construction works planning permits and the construction project building permit have been obtained;
- the funds contributed to the property developments where property units are pre-sold may not be less than 25% of the total amount invested in a project and the progress and the expected completion date and delivery date of the construction work have been confirmed; and

- pre-sale permits have been obtained from the construction bureaus at local levels.

According to the Administration of Pre-sale of Commodity Premises Regulations of Guangdong Province (廣東省商品房預售管理條例) and a notice issued by the Guangdong Provincial Construction Bureau on January 2, 2001, we must meet the following conditions, in addition to the four conditions mentioned above, before obtaining a pre-sale permit for our projects in Guangdong Province:

- a business license and a real property development qualification certificate have been obtained;
- the construction quality and safety monitoring procedures have been performed;
- the main structural construction has been completed with respect to properties of not more than seven stories, and at least two-thirds of the main structural construction has been completed with respect to properties of more than seven stories;
- a special property pre-sale account has been set up at a commercial bank in the place where the project is located; and
- the land use rights with respect to the properties in the project and the project are free from third-party claims.

Other cities and regions in which we have property developments or to which we are expanding (such as Jiangsu Province, Sichuan Province, Beijing, Tianjin, Shanghai and Hainan Province) have imposed similar conditions to pre-sales of properties, which require the possession of certain certificates or government approvals, completion of certain structure or facilities, proof of required investment and the setup of a special presale proceeds accounts.

Sales and Marketing

Our corporate strategy and brand marketing division is responsible for marketing of our brand name at the Group level. Our regional sales and marketing division is responsible for managing sales and marketing for specific projects. As of December 31, 2010, our sales and marketing team (including personnel at the regional level) comprised 73 employees. We conduct training sessions for our staff from time to time and also conduct specific training on a particular project prior to the commencement of pre-sales of such project. We offer our sales and marketing staff performance-based remuneration packages and opportunities to visit renowned projects in other cities in the PRC and overseas to broaden their horizons and enrich their professional experience. Our sales managers and our marketing managers cooperate to conduct feasibility studies based on market analysis, design sales and pricing strategies, and determine appropriate advertising and sales plans for a particular property development and for a particular phase of the sales cycle. They also work with other divisions of the company to plan and organize efficient and orderly on-site sales processes, arrange promotional activities and collect purchaser data and comments.

We adopt various measures to reach potential purchasers, including advertising through television, radio, newspapers, internet, billboards, magazines and instant text messages. We also organize seminars and performances on our projects to attract purchasers.

Payment Arrangements

Purchasers of our residential properties, including those purchasing pre-sale properties, may arrange for mortgage loans with banks. We typically require our purchasers to pay a non-refundable deposit (typically ranging from RMB5,000 to RMB500,000) before entering into formal purchase contracts. If the purchasers later decide not to enter into a purchase contract, they will forfeit such deposits. Upon executing the purchase contracts, the purchasers are typically required to pay not less than 30% of the total purchase price of the property. If purchasers choose to make a lump-sum payment, the remaining purchase price balance is typically required to be paid no later than six months after the execution of the purchase contracts. If the purchasers choose to fund their purchases by mortgage loans provided by banks, under current PRC laws and regulations, they may obtain mortgage loans of up to a maximum of 80%, or 70% for units larger than 90 sq.m., of the purchase price with a repayment period of up to 30 years. These purchasers are typically required to pay the remaining balance of that portion of the purchase price that is not covered by the mortgage loans prior to the disbursement of the mortgage loans from mortgagee banks. The payment terms of sales and pre-sales of properties are substantially identical.

In accordance with industry practice, we provide guarantees to banks with respect to the mortgage loans offered to our purchasers. These guarantees are released upon the earlier of (i) the relevant property certificates being delivered to the purchasers, and (ii) the settlement of mortgage loans between the mortgagee banks and the purchasers of our projects. In line with industry practice, we do not conduct independent credit checks on our purchasers but rely on the credit checks conducted by the mortgagee banks. As of December 31, 2008, 2009 and 2010, our outstanding guarantees on the mortgage loans of our purchasers amounted to RMB1,624.9 million, RMB4,067.1 million and RMB6,160.6 million (US\$933.4 million), respectively. See “Risk Factors — Risks Relating to Our Business — We guarantee mortgage loans of our customers and may be liable to the mortgagee banks if our customers default on their mortgage payments.”

Property Management

We engage our own or third-party property management companies on behalf of our purchasers to manage the residential properties we developed. We have established two lines of property management team to provide after-sale property management services to our purchasers of high-end and mid-end projects respectively. Most of our projects are currently managed by Guangzhou Ningjun Property Management Co., Ltd. (廣州市寧駿物業管理有限公司) and Guangzhou Fuxin Property Management Co., Ltd. (廣州市富馨物業管理有限公司), which are our wholly-owned subsidiaries. Some of our projects are managed by a third-party management company. Historically, we also engaged Savills Guangzhou and Jones Lang LaSalle as property consultants to provide professional advice on property management. To date, our property management subsidiaries do not provide services to projects developed by third parties. The project management companies typically provide after-sales services to purchasers of our properties, including security services, maintenance, operation of clubhouses, gardening and landscaping and other services. Under PRC laws and regulations, the owners’ association of a residential community has the right to change property management companies pursuant to certain procedures. See “Risk Factors — Risks Relating to Our Business — Property owners may terminate our engagement as the provider of property management services.”

Our property management companies typically enter into property management agreements with the property owners. The property management contract sets forth the scope and the quality requirements of the services provided by our property management companies. We are not allowed to assign the management responsibilities to a third party. We are responsible for establishing the

property management procedures and preparing maintenance and renovation plans with respect to the properties and public facilities. The property management contract also sets forth the payment arrangements of management fees, which cannot be increased without the prior consent of the property owners.

Investment Properties

We develop investment properties, including office buildings, retail shop units, shopping malls, hotels and serviced apartments for leasing and/or for capital appreciation. As of December 31, 2010, these investment properties (which include investment properties under development) had a total saleable GFA attributable to the Group of approximately 862,797 sq.m. In addition, we also have 1,400 car parks with a total saleable GFA of approximately 16,800 sq.m. We believe these properties help reduce our exposure to fluctuations in property sales prices. One of our main office buildings is International Finance Place, which was completed in 2007. International Finance Place comprises office properties with a total saleable GFA of approximately 61,000 sq.m. held for lease. As of December 31, 2010, tenants who have signed up or agreed to sign up include about 13 domestic and foreign banks, the Guangzhou offices of various multi-national corporations and diplomatic institutions such as the Italian Consulate. Some of our retail shop units are, or are expected to be, located in large, multiple-use complexes. We may choose to sell the retail shop units we have developed when we believe that sales would generate a better return on investment than through rental or holding for capital appreciation.

We will continue to explore opportunities in diversified property investments with the objective to maintain a balanced product portfolio. We intend to continue to roll out high quality investment properties and premium hotels in the future. We expect our portfolio of office buildings, retail shop units, shopping malls, office buildings, hotels and serviced apartments held on a long-term basis to account for approximately 20% of our total assets.

Hotel Management

In September 2009, we opened our first hotel property, Four Points by Sheraton Guangzhou, Dongpu, located in Tianhe Dongpu, Guangzhou. In addition, we have two high-end star-rated hotels under construction in Guangzhou, namely, W Guangzhou Hotel and Sheraton Huadu Resort, and six other high-end star-rated hotels under planning, variously located in Guangzhou, Suzhou, Chengdu and Hainan. We have entered into three operating agreements with the Starwood Hotels Group. Under these agreements, the Starwood Hotels Group will operate our hotels and associated serviced apartments. Each operating agreement has a 10- or 15-year term commencing on the date of the opening of the respective hotel and ending on December 31 of its tenth or fifteenth full operating year. The Starwood Hotels Group have an option to extend the term for an additional five years upon a written notice of no more than one year and no less than 180 days prior to the expiration of the original term.

We believe that by having the Starwood Hotels Group operate our hotels and serviced apartments, we will be able to benefit from their global reputation, hotel operation experience as well as their integrated marketing services, global reservation systems and employee training programs. The Starwood Hotels Group will receive a monthly fee in consideration of their operation services. This fee is calculated based on a fixed percentage of the revenue from the operations of each of our hotels and serviced apartments operated by Starwood Hotels Group for each month and a progressive percentage of the amount by which such revenue exceeds all ordinary and necessary expenses incurred in the operations of such hotels and serviced apartments for each calendar year during the term of the relevant operating agreement. After the payment of this monthly fee and

deduction of all necessary reserves, we are entitled to all of the profits and losses of our hotels and serviced apartments. As the owner of these properties, we will participate in reviewing and approving the operating plans, subject to certain limitations stated in the hotel operating agreements, of the hotels proposed by the Starwood Hotels Group and participate in making material operating and financial management decisions of the relevant hotels.

The table below sets forth certain information relating to our hotels which had been completed, as of December 31, 2010:

	<u>Estimated Hotel GFA (sq.m.)</u>	<u>Number of Rooms</u>	<u>Ownership Interest</u>	<u>Management Partner</u>	<u>Date of Full Opening</u>	<u>Terms under the Operating Management Agreement</u>
Four Points by Sheraton	35,000	300	100%	Sheraton	2009	15 years

The table below sets forth certain information relating to our hotels which were under development, as of December 31, 2010:

	<u>Project</u>	<u>Estimated Date of Completion</u>	<u>Estimated Hotel GFA (sq.m.)</u>	<u>Estimated Number of Rooms</u>	<u>Ownership Interest</u>	<u>Management Partner</u>
Huadu Sheraton Resort	Sky Ville	2011	16,000	102	100%	Sheraton
W Guangzhou Hotel.	The Apex	2011	50,000	316	100%	W Hotels

In addition, we are planning to develop six other high-end hotels in Guangzhou, Suzhou, Chengdu and Hainan, as part of six of our projects under development, namely, Lie De, Zengcheng Summit, The Sapphire, Suzhou Apex, Chengdu Cosmos and Lingshui Project.

Properties Used by Us

Our corporate headquarters are located at International Finance Place, Guangzhou, Guangdong Province. As of December 31, 2010, the properties that we leased had an aggregate GFA of approximately 7,518 sq.m., which are located in the PRC and 381 sq.m. in Hong Kong. As of December 31, 2010, we, as lessees, had signed four tenancy agreements with the relevant lessors in the PRC. We had not completed registration of these tenancy agreements as of December 31, 2010 and were in the process of applying for, and/or requesting the relevant lessors to assist in, the registration of the remaining tenancy agreements. As advised by our PRC legal counsel, Jingtian & Gongcheng, the failure of registering a tenancy agreement would not affect the validity and enforceability of such tenancy agreement under the applicable laws and regulations. In addition, for one of the properties for which the registrations have not been completed yet, we have not been provided with the relevant title certificates, and as a result, the validity of the tenancy agreements with respect to such properties is uncertain. We lease such properties primarily as offices of the regional offices and local branches of our subsidiaries and as staff housing. We believe that in the event there is any future dispute due to lessor's defective title to the leased property and/or in connection with the validity of the tenancy agreements, we will be able to find alternative premises within a short time frame and with minimal adverse impact on, or disruption to, our business operations.

Competition

Our existing and potential competitors include major domestic developers and, to a lesser extent, foreign developers primarily from Asia, including several leading developers from Hong Kong. Some of our competitors target different segments of the PRC property market; some engage in other activities in addition to property development; and some are focus regionally or nationally. Our competitors may have more experience and resources than us. For more information on competition, see "Risk Factors — Risks Relating to the Real Estate Industry in China — Increasing competition in the property industry in China, particularly in Guangzhou and other cities where we operate may adversely affect our business and financial condition."

Intellectual Property Rights

We have registered with the PRC Trademark Office our trademarks of "KWG", "合景", "合景泰富", "KWG Property", "合景泰富地產" and "IFP" under various categories, and have applied to register with the PRC Trademark Office our trademarks of "譽峰" and "領峰." We have registered "合景泰富", "KWG Property" and "合景泰富地產" trademarks in Hong Kong.

Employees

As of December 31, 2010, we had 2,869 full time employees. The following table provides a breakdown of our employees by responsibilities as of December 31, 2010:

Management	29
Corporate Affairs	3
Administration	108
Accounting	101
Human Resource	29
Engineering	206
Marketing and Sales	73
Design	88
Property Management	1,546
Cost Control (Construction)	118
Information Technology	14
Customer Service	43
Legal	14
Treasury	15
Hotel	293
Auditing	9
Investment Development	46
Operation Management	30
Hotel Management	4
Procurement	51
Others	49
Total	<u>2,869</u>

Insurance

Property developers in Guangzhou are not required under national or local laws or regulations to maintain insurance coverage in respect of their property development operations. We do not maintain insurance coverage on our properties developed for sale other than with respect to those developments over which our lending banks have security interests, or for which we are required to maintain insurance coverage under the relevant loan agreements. Neither do we require the construction companies we engage to maintain insurance coverage on properties under construction. In addition, we generally do not carry insurance against personal injuries that may occur during the construction of our properties. The construction companies, however, are responsible for quality and safety control during the course of the construction and are required to maintain accident insurance for their construction workers pursuant to PRC laws and regulations. To help ensure construction quality and safety, we have a set of standards and specifications for the construction workers to comply with during the construction process. We engage qualified supervision companies to oversee the construction process. Under PRC laws, the owner or manager of properties under construction bears civil liability for personal injuries arising out of construction work unless the owner or manager can prove that it is not at fault. Since we have taken the above steps to prevent construction accidents and personal injuries, we believe that we would generally be able to demonstrate that we were not at fault as the property owner if a personal injury claim is brought against us. In addition, according to our construction contracts, any liability that may arise from tortious acts committed on work sites will be borne by the construction companies. To date, we have not experienced any destruction of or damage to our property developments nor have any personal injury-related claims been brought against us.

We believe that our policies with respect to insurance are in line with the industry practice in the PRC. However, there are risks that we do not have sufficient insurance coverage for losses, damages and liabilities that may arise in our business operations. See “Risk Factors — Risks Relating to Our Business — We may suffer certain losses not covered by insurance.”

Environmental and Safety Matters

We are subject to PRC environmental laws and regulations as well as environmental regulations promulgated by local governments. See “Regulations — The Land System of The PRC — Environmental Protection.” As required by PRC laws and regulations, 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. When there is a material change in respect of the construction site, scale or nature of a given project, a new environmental impact assessment report must be submitted for approval. During the course of construction, the property developer and the construction companies must take measures to prevent air pollution, noise emissions and water and waste discharge.

Upon completion of a property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers. As of December 31, 2010, we were in the process of applying for the environmental completion inspection approval for certain of our projects.

In addition, PRC environmental laws and regulations provide that if a construction project includes environmental facilities (including engineering projects, devices, monitors and other facilities that were constructed or equipped in order to prevent pollution and protect the environment), such facilities will have to pass an inspection by the environmental authorities and an approval must be obtained before the environmental facilities can commence operations. If a construction project does not include any environmental facilities, no such approval is required. Our business is of such a nature that we are not required to construct environmental facilities and, therefore no approval in respect of environmental facilities from the environmental authorities is necessary.

We believe that our operations are in compliance with currently applicable national and local environmental and safety laws and regulations in all material respects. See “Risk Factors — Risks Relating to the Real Estate Industry in China — Potential liability for environmental damages could result in substantial cost increases.”

Legal Proceedings

From time to time we are involved in legal proceedings or disputes in the ordinary course of business including claims relating to our guarantees for mortgage loans provided to our purchasers and contract disputes with our purchasers and suppliers.

In April 2009, Guangzhou Hejing Meifu Real Estate Development Ltd. received tax penalties in the amount of RMB787,148 from Guangzhou Municipal taxation bureau due to failure to obtain tax invoices in accordance with relevant rules and regulations and the delay of tax payment. The tax penalty amount has been fully paid. In May 2009 and January 2010, Guangzhou Hejing Real Estate Development Ltd. received tax penalties in the amount of RMB18,000 from Guangzhou Municipal taxation bureau due to failure to obtain tax invoices in accordance with relevant rules and regulations. The tax penalty amount has been fully paid.

As of the date of this offering memorandum, we are not aware of any material legal proceedings, claims or disputes currently existing or pending against us. However, we cannot assure you that material legal proceedings, claims or disputes will not arise in the future. See “Risk Factors — Risks Relating to Our Business — We may be involved from time to time in disputes, administrative, legal and other proceedings arising out of our operations and may face significant liabilities as a result.”

REGULATIONS

The Land System of The PRC

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 in a city or town is State-owned, and all land in the rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively-owned. The State has the right to resume land in accordance with law if required for the benefit of the public.

Although all land in the PRC is owned by the State or by collectives, private individuals, enterprises and other organizations are permitted to hold, lease and develop land for which they are granted land use rights.

National Legislation

In April 1988, the Constitution of the PRC (the “Constitution”) was amended by the National People’s Congress (全國人民代表大會) to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law (中華人民共和國土地管理法) of the PRC was amended to permit the transfer of land use rights for value.

Under 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) (“Urban Land Regulations”) promulgated in May 1990, local governments at or above county level have the power to grant land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the grant of land use rights upon payment of a grant premium.

Under the Urban Land Regulations, there are different maximum periods of grant for different uses of land. They are generally as follows:

<u>Maximum period use of land</u>	<u>In years</u>
Commercial, tourism, entertainment	40
Residential.	70
Industrial.	50
Public utilities	50
Others	50

Under the Urban Land Regulations, all local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The State may not resume possession of lawfully granted land use rights prior to expiration of the term of grant. If public interest requires the resumption of possession by the State under special circumstances during the term of grant, compensation must be paid by the State. A land user may lawfully assign, mortgage or lease its land use rights to a third party for the remainder of the term of grant.

Upon expiration of the term of grant, renewal is possible subject to the execution of a new contract for the grant of land use rights and payment of a premium. If the term of the grant is not renewed, the land use rights and ownership of any buildings thereon will revert to the State without compensation.

The National People’s Congress adopted the PRC Property Rights Law (中華人民共和國物權法) in March 2007, 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) property purposes expires, it will be renewed automatically.

In order to stop illegal occupation and abusive use of land, prevent overheating in investment in fixed assets in some areas, and implement strict protection of cultivated land, the General Office of the State Council (國務院辦公廳) issued the Urgent Notice on Further Governing and Rectifying Land Market and Strengthening Administration of Land (關於深入開展土地市場治理整頓嚴格土地管理的緊急通知) on April 29, 2004.

The notice addresses issues including, (i) continuing the rectification of the land market by cooperation between the PRC Ministry of Land and Resources (authorities on problems existing in the grant of State-owned land use right by way of tender, auction and invitation for bidding; (ii) strictly administering approvals of construction land; (iii) protecting basic agricultural land; (iv) strictly implementing the general strategy and annual plan for land use, and the balance system for occupying and compensating cultivated land; and (v) actively promoting the reform of the administration system of land and resources. Also, according to the notice, the rectification of the land market will take approximately half a year from the issuance of the notice. Approvals for converting agricultural land to non-agricultural construction land will be suspended throughout China during this period, except for certain major public infrastructure projects which shall be approved by the State Council.

On March 26, 2005, the General Office of the State Council promulgated a Notice on Effectively Stabilizing House Prices (關於切實穩定住房價格的通知) to restrain the excessive growth of house prices and promote the sound development of the property market. The notice provided that housing prices should be stabilized and the system governing housing supply should be vigorously adjusted and improved. In accordance with the notice, seven departments of the State Council including the Ministry of Construction issued an Opinion on the Work of Stabilizing Housing Prices (關於做好穩定住房價格工作的意見) on April 30, 2005. The opinion stated, amongst the others, that: (i) the local government should focus on increasing the supply of low to medium-end ordinary residential houses while controlling the construction of high-end residential houses; (ii) to curb any speculation in the property market, business taxes would be levied from June 1, 2005 on the total revenue arising from any transfer by individuals of houses within two years upon their purchase thereof or on the difference between the transfer price and the original price for any transfer of non-ordinary houses (非普通住宅) by individuals after two or more years upon their purchase thereof; and (iii) the real estate registration department will no longer register the transfer of apartment units which are pre-sold, where such units have not obtained the relevant Real Estate Ownership Certificates.

On May 24, 2006, the General Office of the State Council further issued a Notice on Adjusting the Housing Structure and Stabilizing Housing Prices (關於調整住房供應結構穩定住房價格意見的通知). The notice provided for six broad measures including but not limited to the following specific directives to (i) encourage mass-market residential developments and to curb the development of high-end residential properties; (ii) enforce the collection of business taxes on property sales (business taxes will be levied on the entire sale price of any property sold within five years, or on the profit arising from any property sold after five years subject to possible exemptions for ordinary residential properties); (iii) restrict housing mortgage loans to not more than 70% of the total property price (for houses purchased for self-residential purposes and with an area of less than 90 sq.m., the owners are still able to apply for housing mortgage up to an amount representing 80% of the total property price); (iv) halt land supply for villas projects and restrict land supply for high-end, low density residential projects; (v) moderate the progress and scale of demolition of old properties for redevelopment; (vi) local governments are also required to ensure that at least 70% of the total development and construction area also must consists of units of less than 90 sq. m. in size (with any exceptions requiring the approval of the Ministry of Construction); and (vii) banks are not permitted to provide loans to a property developer whose total capital fund is less than 35% of the

total investment amount in an intended development project. On August 30, 2006, the State Council published the Notice by the State Council on Strengthening the Regulation and Control of the Land (關於加強土地調控有關問題的通知), which regulates the management of land in the PRC and also the protection of cultivated land. According to the notice, land designated for industrial purposes shall be granted by way of tender, auction and putting up for bidding, but in any event shall not be sold below the reserve price.

In May 2006, the Ministry of Land and Resources published an Urgent Notice to Tighten Up Land Administration (當前進一步從嚴土地管理的緊急通知). In this notice, the Ministry of Land and Resources stressed that local governments must adhere to their annual overall land use planning and land supply plans and tighten up the control on land supply for non-agricultural use. The notice requires local governments to suspend the supply of land for new villa projects to ensure adequate supply of land for more affordable housing. In this notice, the Ministry of Land and Resources also required the local governments to conduct thorough investigations of illegal land use and submit a report on such investigations to the Ministry by the end of October 2006.

In September 2007, the Ministry of Land and Resources issued the Notice on Implementation of the State Council's Certain Opinions on Resolving Difficulties and Further Strengthening Macro-control of Land Supply (關於認真貫徹國務院〈關於解決城市低收入家庭住房困難的若干意見〉進一步加強土地供應調控的通知), pursuant to which, at least 70% of the land supply arranged by the relevant land administration authority at city or county level for residential property development for any given year must be used for developing low- to medium-cost and small-to medium-size units, low-cost rental properties and affordable housing.

On January 3, 2008, the State Council issued the Notice on Promoting Economization of Land Use (關於促進節約集約用地的通知). This notice states, among other things, that (i) policies in relation to the forfeiture of land use rights without compensation for land which has remained idle for more than two years shall be strictly implemented; (ii) if any land remains idle for one year, an idle land fee of 20% of the relevant land premium shall be levied; (iii) the prohibition of land supply for villa projects shall continue; (iv) the Ministry of Land and Resources and other authorities are required to research and commence the drafting of implementation rules concerning the levy of LAT on idle land; (v) in relation to the supply of residential land, planning conditions such as plot ratio limits and the number and type of units that can be constructed shall be taken into account in land grant contracts and allocation decisions to ensure that at least 70% of the total land grant for residential development will consist of low rental housing, economy housing, limited pricing housing and units of less than 90 sq.m. in size; and (vi) financial institutions are required to exercise caution when approving financing for any property developer who, after one year from the commencement date stipulated in the land grant contract, fails to complete at least one-third of the development of their project or provide at least 25% of the total investment in the project.

In order to encourage the consumption of the ordinary residence and support the real estate developer to handle the market change, the General Office of the State Council issued the Several Opinions on Facilitating the Healthy Development of the Real Estate Market (關於促進房地產市場健康發展的若干意見) in December 2008. Pursuant to this opinion, in order to encourage the consumption of the ordinary residence, from January 1, 2009 to December 31, 2009, business tax is imposed on the full amount of the sale income upon the transfer a non-ordinary residence by an individual within two years from the purchase date. For the transfer of non-ordinary residence which is more than two years from the purchase date and ordinary residence which is within two years from the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after two years from the purchase date. Furthermore, individuals with an existing ordinary

residence that is smaller than the average size for their locality may buy a second ordinary residence under favorable loan terms similar to first-time buyers. In addition, support for real estate developers to deal with the changing market is to be provided by increasing credit financing services to “low-to-medium-level price” or “small-to-medium-sized” ordinary commercial housing projects, particularly those under construction, and providing financial support and other related services to real estate developers with good credit standing for merger and acquisition activities.

The Ministry of Finance and the State Administration of Taxation issued the Circular on Revising the Business Tax Policies on Individuals’ House Transfer (關於調整個人住房轉讓營業稅政策的通告) on December 22, 2009, which revised the business tax policy for real property transfers. The Circular provided that from January 1, 2010, the transfer of non-ordinary housing purchased by individuals for less than five years remains subject to business tax based solely on the sale price from such transfer; any transfer of non-ordinary housing purchased by individuals for at least five years (included) and ordinary housing purchased for less than five years is subject to business tax based on the difference between the gain from such transfer and the original purchase price; and the business tax is exempted for any transfer of ordinary housing purchased and held by individuals for more than five years (included).

In January 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of Property Market (關於促進房地產市場平穩健康發展的通告), which adopted a series of measures to strengthen and improve the regulation of the property market, stabilize market expectation and facilitate the stable and healthy development of the property market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of property, restrain speculation of properties, and strengthen risk prevention and market supervision. Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), who have already purchased a residence through mortgage financing and have applied to purchase a second or more residences through mortgage financing, to pay a minimum down-payment of 40% of the purchase price.

On March 8, 2010, the Ministry of Land and Resources promulgated the Circular on Strengthening Real-estate Land Supply and Supervision (關於加強房地產用地供應和監管有關問題的通告, Circular) in order to strictly regulate the transfer of land for commercial buildings. According to this Circular, the area of a parcel of land granted for commodity residential project should be strictly restricted in accordance with the Catalogue of Restricted Use of Land (2006 Version Supplement) (限制用地專案目錄(2006年本增補本)) and the minimum price of the land transfer shall not be less than 70% of the benchmark price of the place where the land being transferred is located, and the bidding deposit shall not be less than 20% of the minimum transfer price. After land transfer deal is closed, land transfer contract shall be executed within 10 working days therefrom. The first installment of 50% of the land transfer price shall be paid within one month of the execution of the contract and the remaining payment shall be made in time in accordance with the contract, which shall not be later than one year. A system of declaration on commencement and finish of real estate project should be established since April 1, 2010. Property developer should make written declaration to the land resource authorities when the project commenced or finished.

On April 17, 2010, for the purpose of the State Council Issued Notice on Resolutely Containing the Excessive Hike of Property Price in Some Cities (堅決遏制部分城市房價過快上漲的通告) (the “April 17 Notice”), which provides that where the first home purchaser (including a borrower, his or her spouse and children under 18) buy a residence with a unit floor area of more than 90 sq.m. for self use, the minimum down payment shall not be less than 30%; where for the second home buyers that use mortgage financing, it is required that the minimum down payment shall be 50% of the

purchase price with minimum mortgage lending interest rate at the rate of 110% of the benchmark rate; where a third or further buyers that use mortgage financing, the minimum down payment and interest rate thereof shall be further substantially raised. The April 17 Notice, further requires that in cities where property price is overly high with excessive price hike and strained house supply, commercial banks may in light of risk exposure suspend extending bank loans for a third or further buyers; also provision of housing loans shall be suspended to non-local residents who cannot present the local tax returns or social insurances certification of more than one (1) year.

Three authorities, including the MOHURD, PBOC and CBRC, jointly released the Circular on Regulating the Standards for recognizing the Second House in Commercial Housing Loans for Individuals (關於規範商業性個人住房貸款中第二套住房認定標準的通知, Circular) on May 26, 2010, so as to regulate recognition of the second house of applicants for commercial housing loans (hereinafter referred to as the loan applicants). Under the Circular, number of houses owned by a family in the commercial housing loans for individuals shall be calculated according to number of sets of houses which are actually owned by members (including the loan applicant and his/her spouse and under-age children, hereinafter the same) of the family who plans to purchase a house. The Circular also stipulated that house purchasers shall check the house registration records of the family via the house registration system, and shall provide the results in written. The loan applicant shall provide the credit guarantee in written to prove the actual number of houses owned by his/her family.

On September 29, 2010, the PBOC and the CBRC jointly issued the Circular on Issues Concerning Improving Differentiated Housing Loan Policies (關於完善差別化住房信貸政策有關問題的通知), which stipulates that all commercial banks shall suspend issuing housing loans to home buyers whose family members already own two or more housing properties and to non-local residents who cannot provide evidence showing that they have paid taxes or social insurance contribution for more than one year. If a real estate developer has records of having idle land, changing the land use purpose and nature, delaying the project commencement or completion time, hoarding land, and other infractions, all commercial banks shall stop issuing loans or providing loan extension services to such real estate developer for its new projects.

On November 2, 2010, the Ministry of Finance, the MOHURD, the CBRC and the PBOC jointly issued the Circular on Issues Concerning Policies on Regulation of Personal Housing Provident Fund Loan (關於規範住房公積金個人住房貸款政策有關問題的通知), which provides that where personal housing provident fund loan is used to buy the first ordinary self-use house and the floor area of the house is no more than 90 sq.m., the down-payment proportion shall not be lower than 20%; where the floor area of the house is more than 90 sq.m., the down-payment proportion shall not be lower than 30%. Only the housing provident fund-paying families whose floor area per capita is less than local average shall have access to personal housing provident fund loan which is used to buy the second house, and the loan shall be used to buy ordinary self-use house so as to improve dwelling conditions. Where the personal housing provident fund loan is used to buy the second house, the down-payment proportion shall not be lower than 50%, and the interest rate of such loan shall not be less than 1.1 times of the interest rate of the personal housing provident fund loan for the purchase of the first house. Personal housing provident fund loan for the purchase of a third or more houses by housing provident fund-paying families shall be suspended.

On November 4, 2010, the State Administration of Foreign Exchange and the MOHURD jointly issued the Circular on Further Regulating the Administration of Housing Purchases by Overseas Institutions and Individuals (關於進一步規範境外機構和個人購房管理的通知), which indicates that unless otherwise provided for in laws and regulations, an overseas individual may purchase only one self-use house within the territory of China; any overseas institution which sets up

a branch or representative office within the territory of China may purchase a non-residence house required for business purposes only in the city where such branch or representative office is registered.

On January 26, 2011, the General Office of the State Council issued the Notice concerning Further Strengthening the Macroeconomic Control of the Real Property Market (進一步做好房地產市場調控工作有關問題的通知). This notice, among others, provides that: (i) people selling residential property within five years of their purchase of such residential property will be charged business taxes on the full amount of the sale price of such houses, whether ordinary or non-ordinary; (ii) the minimum down payment for second house purchases is raised from 50% to 60%; (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 PRC central government, municipalities with independent planning status, provincial capitals and cities with high housing prices shall limit the number of houses that local residents can buy in a specified period. In principle, local resident families that own one house and non-local resident families who can provide local tax clearance certificates or local social insurance payment certificates for a required period are permitted to purchase only one additional house (including newly-built houses and second-hand houses). Sales of properties to (a) local resident families who own two or more houses, (b) non-local resident families who own one or more houses, and (c) non-local resident families who cannot provide local tax clearance certificates or local social insurance payment certificates for a required period, shall be suspended in local administrative regions.

In order to implement the Notice concerning Further Strengthening the Macroeconomic Control of Real Property Market. On February 23, 2011, the Guangzhou Municipal Government promulgated the Notice on Further Strengthening Control over the Guangzhou Property Market (廣州市人民政府辦公廳關於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實施意見), which provided, among other things, that (i) the minimum down payment for second house purchases using bank loans or housing reserves is raised to 60% with a minimum lending interest rate of 110% of the benchmark rate; (ii) both local families who have one house only and non-local families who do not own a house in Guangzhou and have paid social insurance or individual income tax for an accumulative 12 months over the last two years in Guangzhou, are allowed to buy one more house; and (iii) (a) local families who already have two or more houses, (b) non-local families who have one house, and (c) non-local families who fail to provide evidence of payment of social insurance or individual income tax for an accumulative 12 months over the last two years in Guangzhou, are suspended from purchasing a new house in Guangzhou. On February 16, 2011, the Beijing Municipal Government promulgated the Notice on Further Strengthening Control over Beijing Property Market (北京市人民政府辦公廳關於貫徹落實國務院辦公廳文件精神進一步加強本市房地產市場調控工作的通知), which among other things, provides that (i) a local family that owns one house in Beijing (including a family that holds an effective Beijing Certificate for Work and Residence) and (ii) a non-local family with an effective Certificate for Temporary Residence that does not own a house in Beijing and has paid social insurance or individual income tax for five consecutive years, are permitted to purchase one additional house in Beijing (including newly-built and second-hand houses). Furthermore, (i) a local family that owns two or more houses in Beijing, and (ii) a non-local family that owns one house or more in Beijing, or fails to provide both an effective Certificate for Temporary Residence and evidence of payment of social insurance or individual income tax for consecutive five years, is suspended from purchasing a new house in Beijing. In addition to Beijing, other cities, including Tianjin, Shanghai, Suzhou, Nanjing, Qingdao, Chengdu, Foshan and Harbin have also announced their new purchase limit policies which are almost the same as the requirements in the Notice concerning Further Strengthening the Macroeconomic Control of Real Property Market.

Grant

PRC law distinguishes between the ownership of land and the right to use land. Land use rights can be granted by the State to a person to entitle him to the exclusive use of a piece of land for a specified purpose within a specified term and on such other terms and conditions as may be prescribed. A premium is payable on the grant of land use rights. The maximum term that can be granted for the right to use a piece of land depends on the purpose for which the land is used. As described above, the maximum limits specified in the relevant regulations vary from 40 to 70 years depending on the purpose for which the land is used.

Under the Urban Land Regulations, there are three methods by which land use rights may be granted, namely by agreement, tender or auction.

On June 11, 2003, the Ministry of Land and Resources promulgated the Regulation on Grant of State-owned Land Use Rights by Agreement (協議出讓國有土地使用權規定). According to such regulation, if there is only one intended user on a piece of land, the land use rights (excluding land use rights used for business purposes, such as commercial, tourism, entertainment and commodity residential properties) may be granted by way of agreement. The local land bureau, together with other relevant government departments including the city planning authority, will formulate the plan concerning issues including the specific location, boundary, purpose of use, area, term of grant, conditions of use, conditions for planning and design as well as the proposed land premium, which shall not be lower than the minimum price regulated by the State, and submit such plan to the relevant government for approval. The local land bureau and the person who is interested will negotiate and enter into the grant contract based on such plan. If two or more entities are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or putting up for bidding. Furthermore, according to the Rules Regarding the Grant of State-owned Land Use Rights by Way of Tender, Auction and Putting up for Bidding (招標拍賣掛牌出讓國有土地使用權規定) (the “Land Use Grant Rules”) which are effective from July 1, 2002, land use rights for properties for commercial use, tourism, entertainment and commodity residential purposes can only be granted through tender, auction or putting up for bidding.

Where land use rights are granted by way of tender, invitations to tender will be issued by the local land bureau. The invitation will set out the terms and conditions upon which the land use rights are proposed to be granted. A committee will be established by the relevant local land bureau to consider tenders which have been submitted. The successful bidder will then be asked to sign the grant contract with the local land bureau and pay the relevant land premium within a prescribed period. The land bureau will consider the following factors: the successful bidder shall be either the bidder who can satisfy the comprehensive evaluation criteria of the tender, or who can satisfy the substantial requirements of the tender and also offers the highest bid.

Where land use rights are granted by way of auction, a public auction will be held by the relevant local land bureau. The land use rights are granted to the bidder with the highest bid. The successful bidder will be asked to enter into a grant contract with the local land bureau.

Where land use rights are granted by way of bidding, a public notice will be issued by the local land bureau to specify the location, area and purpose of use of land and the initial bidding price, period for receiving bidding and terms and conditions upon which the land use rights are proposed to be granted. The land use rights are granted to the bidder with the highest bid and which satisfies the terms and conditions. The successful bidder will then enter into a grant contract with the local land bureau.

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

In September 2007, the Ministry of Land and Resources further promulgated the Regulations on the Grant of State-owned Construction Land Use Rights Through Public Tender, Auction and Listing for-sale (招標拍賣掛牌出讓國有建設用地使用權規定) to require that land for industrial use, except land for mining, must also be granted by public tender, auction and listing-for-sale. Only after the grantee has paid the land premium in full under the land grant contract, can the grantee apply for the land registration and obtain the land use right certificates. Furthermore, land use rights certificates may not be issued in proportion to the land premium paid under the land grant contract.

In November 2009, the Ministry of Finance, the Ministry of Land and Resources, PBOC, the PRC Ministry of Supervision and the PRC National Audit Office jointly promulgated the Notice on Further Enhancing the Revenue and Expenditure Control over Land Grant (關於進一步加強土地出讓收支管理的通知). The Notice raises the minimum down-payment for land premium to 50% and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions.

Ministry of State Land and Resources promulgated Notice on Problems Regarding Strengthening Control and Monitor of Real Estate Land Supply (關於加強房地產用地供應和監管有關問題的通知) (the “Notice”) on March 8, 2010. According to the Notice, the land provision for affordable housing, redevelopment of shanty towns and small/medium residential units for occupier owner should be no less than 70% of total land supply, and the land supply for large residential units will be strictly controlled and land supply for villa projects will be banned. The Notice also requires that the lowest land grant price should not less than 70% of the basic land price in which the granted land is located and the real estate developers’ bid deposit should not less than 20% of the lowest grant price. The land grant agreement must be executed within 10 working days after the land transaction is confirmed. The minimum down payment of the land premium should be 50% and must be paid within one month after the execution of the land grant agreement. The rest payment should be paid in accordance with the agreement, but not later than one year. If the land grant agreement is not executed in accordance with the requirement above, the land should not be handed over and the deposit will not be returned. If no grant premium is paid after the execution of the agreement, the land must be withdrawn.

On September 21, 2010, the Ministry of Land and Resources and the MOHURD issued the Circular of the Ministry of Land and Resources and the MOHURD on Further Strengthening the Administration and Control of the Lands for Real Estates and the Construction of Real Estates (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), to tighten the examination of qualifications of land bidders. It specifies that when the bidders take part in the bidding or auction of the transferred land, the competent land department and resources shall, in addition to requiring proof of identity documents, payment of the bid security, require an undertaking letter stating that the bid security is not from any bank loan, shareholders’ borrowing, on-lending or raised funds, and the credit certificate issued by commercial financial institutions. Where the bidders are found to have conducted any of the following illegal or irregular activities, then the competent department of land and resources shall forbid the bidders and their controlling shareholders from participating in land bidding activities: (1) committing crimes such as forgery of instruments with an aim to illegally sell the land; (2) conducting illegal activities such as illegal transfers of land use right; (3) where the land is idling for a period of more than one year due to the

enterprises' reasons; or (4) where the development and construction enterprise develops and takes advantage of the land in contravention of the conditions as agreed in the transfer contract. The relevant departments of land and resources at all levels are required to strictly implement the regulations.

In order to control and facilitate the procedure of obtaining land use rights, several local governments have stipulated standard provisions for land grant contracts. Such provisions usually include terms such as use of land, land premium and manner of payment, building restrictions including site coverage, total gross floor area and height limitations, construction of public facilities, submission of building plans and approvals, deadlines for completion of construction, town planning requirements, restrictions against alienation before payment of premium and completion of prescribed development and liabilities for breach of contract. Any change requested by the land user in the specified use of land after the execution of a land grant contract will be subject to approvals from the relevant local land bureau and the relevant urban planning department, and a new land use contract may have to be signed and the land premium may have to be adjusted to reflect the added value of the new use. Registration procedures must then be carried out immediately.

Pursuant to the Circular on Further Strengthening the Administration and Control of Lands for Real Estates and the Construction of Real Estates (關於進一步加強房地產用地和建設管理調控的通知) jointly promulgated by the Ministry of Land and Resources and the MOHURD on September 21, 2010, the grant of two or more bundled parcels of lands or uncleared lands (毛地) is prohibited.

Withdrawal of Land

According to the Law of Administration of Urban Real Property (2007 revision) (中華人民共和國城市房地產管理法, 2007年修訂) (the "Urban Real Property Law"), where a real property development is carried out on land for which the land use rights are acquired by means of grant, the land must be developed in line with the specified use for the land and the deadline for commencement of development set out in the land grant contract. Where the development does not commence within one year from the specified date set out in the land grant contract, an idle land fee may be charged at a rate equivalent to not more than 20% of the relevant land premium. Where the development does not commence within two years from the specified date, the relevant land use rights may be withdrawn without compensation, except where the commencement of construction is delayed due to force majeure, an act of the government or relevant government departments, or delays in preliminary work necessary for the commencement of development.

According to the Measures on Disposal of Idle Land promulgated on April 28, 1999 (閒置土地處置辦法), "idle land" refers to land granted for use but laying idle because the land user fails to commence development and construction before the specified commencement date without the consent of government which approved the use of the land. Where the land is deemed "idle land", relevant municipal or county land administrative departments ("Land Administrative Authorities") shall inform the land user and prepare a plan for the disposal of the idle land. Where the land is mortgaged, the mortgagee shall be informed to participate in the preparation of the disposal plan. The Land Administrative Authorities are responsible for implementing the disposal plan after such plan has been approved by the government which originally approved the use of the land.

The methods of disposal of idle land include, among others, the following:

- (i) extending the development and construction period by no more than one year;

- (ii) changing the use of the land, and continuing development and construction afterwards; and
- (iii) arranging for temporary use of the land and re-approving the development after the original project satisfies the construction conditions, where the land has appreciated in value, the government will increase the land premium in accordance with the appreciated value.

Where the land is idle due to acts of government or relevant government departments and the land user has partly paid the compensation or requisition fee for the land, in addition to the methods provided above, the government may acknowledge the relevant land to the land user for the part of land which the land user has paid the compensation or requisition fee; while the remaining part of the land will be withdrawn by the government.

In January 2008, a Notice on Promoting Economization of Land Use (關於促進節約集約用地的通知) issued by the State Council urges the full and effective use of existing construction land and the preservation of farming land and emphasizes the enforcement of the current rules on idle land fee for any land left idle for over one year but less than two years, with such idle land fee charged at 20% of the land grant premium, as well as for land left idle for more than two years, with such idle land forfeited without compensation.

Transfer

After land use rights relating to a particular area of land have been granted by the State, unless any restriction is imposed, the party to whom such land use rights are granted may transfer, lease or mortgage such land use rights for a term not exceeding the term which has been granted by the State. The difference between a transfer and a lease is that a transfer involves the vesting of the land use rights by the transferor in the transferee during the term for which such land use rights are vested in the transferor. A lease, on the other hand, does not involve a transfer of such rights by the lessor to the lessee. Furthermore, a lease, unlike a transfer, does not usually involve the payment of a premium. Instead, a rent is payable during the term of the lease. Land use rights cannot be transferred, leased or mortgaged if the provisions of the grant contract, with respect to the prescribed period and conditions of investment, development and use of the land, have not been complied with. In addition, different areas in the PRC have different conditions which must be fulfilled before the respective land use rights can be transferred, leased or mortgaged.

All transfers, mortgages and leases of land use rights must be evidenced by a written contract between the parties which must be registered with the relevant local land bureau at municipality or country level. Upon a transfer of land use rights, all rights and obligations contained in the contract pursuant to which the land use rights were originally granted by the State are deemed to be incorporated as part of the terms and conditions of such transfer, depending on the nature of the transaction.

Under the Urban Real Property Law, real property that has not been registered and of which a title certificate has not been obtained in accordance with the law may not be assigned. Also, under the Urban Real Property Law, if land use rights are acquired by means of grant, the real property shall not be assigned before the following conditions have been met: (i) the premium for the grant of land use rights must have been paid in full in accordance with the land grant contract and a land use right certificate must have been obtained; (ii) investment or development must have been made or carried out in accordance with terms of the land grant contract; (iii) more than 25% of the total

amount of investment or development must have been made or completed; and (iv) where the investment or development involves a large tract of land, conditions for use of the land for industrial or other construction purposes have been satisfied.

Termination

A land use right terminates upon the expiration of the term of the grant specified in the land grant contract and the resumption of that right. Upon expiry, the land use right and ownership of the related buildings erected thereon and other attachments may be acquired by the State without compensation. The land user will take steps to surrender the land use right certificate and cancel the registration of the certificate in accordance with relevant regulations. A land user may apply for renewal of the land use rights and, if the application is granted, the land user is required to enter into a new land grant contract, pay a premium and effect appropriate registration for the renewed right.

The National People's Congress adopted the PRC Property Rights Law (中華人民共和國物權法) in March 2007, 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) property purposes expires, it will be renewed automatically.

The State generally will not withdraw a land use right before the expiration of its term of grant and for special reasons (such as in the public interests), it must offer proper compensation to the land user, having regard to the surrounding circumstances and the period for which the land use right has been enjoyed by the user.

Document of Title

In the PRC, there are two registers for property interests. Land registration is achieved by the issue of a land use right certificate by the relevant authority to the land user. It is evidence that the land user has obtained land use rights which can be assigned, mortgaged or leased. The building registration is the issue of a building ownership certificate (房屋所有權證) or a real estate ownership certificate (房地產權證) (“Real Estate Ownership Certificate”) to the owner. It is evidence that the owner has obtained building ownership rights in respect of the building erected on a piece of land. According to the Land Registration Regulations (土地登記規則) (“Registration Regulations”) promulgated by the State Land Administration Bureau (國家土地管理局) on December 18, 1995 and implemented on February 1, 1996, the Land Registration Measures (土地登記辦法) promulgated by the Ministry of Land and Resources on December 30, 2007 and effective on February 1, 2008, and the Building Registration Measures (房屋登記辦法) promulgated by the MOHURD on February 15, 2008 and effective on July 1, 2008, all land use rights and building ownership rights which are duly registered are protected by the law.

In connection with these registration systems, real estate and land registries have been established in the PRC. In most cities in the PRC, the above systems are separate systems. However, in Shenzhen, Shanghai, Guangzhou and some other major cities, the two systems have been consolidated and a single composite real estate ownership certificate (房地產權證) will be issued evidencing the ownerships of both land use rights and the building erected thereon.

Mortgage and Guarantee

The grant of mortgage in the PRC is governed by the Security Law of the PRC (中華人民共和國擔保法) (the “Security Law”) promulgated by the Standing Committee of the National People's Congress in June 1995, the Measures for Administration of Mortgages of Urban Real Estate

promulgated by the Ministry of Construction (城市房地產抵押管理辦法) in May 1997, as amended in August 2001, and Property Law (物權法) promulgated by the National People's Congress in March 2007 and by relevant laws regulating real estate. Under the Security Law, any mortgage contract must be in writing and must contain specified provisions including (i) the type and amount of the indebtedness secured; (ii) the period of the obligation by the debtor; (iii) the name, quantity, and ownership of the land use rights of the mortgaged property; and (iv) the scope of the mortgage. For mortgages of urban real properties, new buildings on a piece of land after a mortgage has been entered into will not be subject to the mortgage.

The validity of a mortgage depends on the validity of the mortgage contract, possession of the real estate certificate and/or land use right certificate of the mortgagor and registration of the mortgage with authorities. If the loan in respect of which the mortgage was given is not duly repaid, the mortgagee may sell the property to settle the outstanding amount and return the balance of the proceeds from the sale or auction of the mortgaged property to the mortgagor. If the proceeds from the sale of such property are not sufficient to cover the outstanding amount, the mortgagee may bring proceedings before a competent court or arbitration tribunal (where there is an agreement to recover the amount still outstanding through arbitration) in the PRC.

The Security Law also contains comprehensive provisions dealing with guarantees. Under the Security Law, guarantees may be in two forms: (i) guarantees whereby the guarantor bear 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.

Leasing

Both the Urban Land Regulations and the Urban Real Property Law permit leasing of granted land use rights and buildings thereon. However, leasing of land use rights obtained by allocation (劃撥) and of buildings on such allocated land is regulated by the Urban Land Regulations.

Leasing of urban real properties is also governed by the Measures for Administration of Leasing of Urban Buildings (城市房屋租賃管理辦法) (the "Measures"), which was promulgated in accordance with the Urban Real Property Law. Under the Measures, owners of buildings in the PRC are entitled to lease their buildings, and landlords and tenants are required to enter into a written lease contract which must contain certain specified provisions. The contract has to be registered with the relevant property administrative authority at municipality or country level within 30 days after its execution. A contract cannot be longer than the remainder of the term under the land grant contract. The tenant may, upon obtaining consent from the landlord, sublease the premises.

On December 1, 2010, the MOHURD issued the Administrative Measures for Commodity Housing Tenancy (商品房屋租賃管理辦法), according to which the parties to a housing tenancy shall go through the housing tenancy registration formalities with the competent construction (real estate) departments 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 construction (real estate) departments are authorized to impose a fine below RMB1,000 on

individuals, and a fine between RMB1,000 and RMB10,000 on other violators who are not natural persons who fail to comply with the regulations within the specified time limit. The above measures came into effect as of February 1, 2011 in replacement of the Measures for Administration of Leasing of Urban Buildings.

According to the Urban Real Property Law, where the owner of a house built on state-owned land leases his/her property and that the land use rights were obtained through allocation for the purpose of profit making, any proceeds derived from the land in the form of rent must be paid to the State.

Resettlement

Pursuant to the Administration Rules of Demolition and Removal of Housing in Urban Areas (城市房屋拆遷管理條例) promulgated by the State Council on June 13, 2001, the party responsible for resettlement (the “Resettling Party”) should apply for a resettlement permit and provide monetary compensation or alternative residence for the residents to be resettled. The real estate administration authority will issue a resettlement notice after granting the resettlement permit, detailing the parties concerned, the properties affected and the period of the resettlement. The Resettling Party will then enter into written agreements with the relevant residents detailing, among other things, the compensation to be provided to the residents, which will be determined on the basis of, among other things, the property’s location, permitted use and GFA. If the Resettling Party and the residents fail to reach agreement, either party may apply to the relevant authority for a ruling. A ruling will be given within 30 days of the application, following which either party may initiate proceedings in the people’s court within three months from the ruling if they contest the ruling.

In order to prevent illegal demolition and removal, and overheating investment in some areas, the General Office of the State Council issued the Notice on Controlling the Scale of Demolition and Removal and Strengthening Administration of Demolition and Removal (關於控制城鎮房屋拆遷規模嚴格拆遷管理的通知) on June 6, 2004. The notice addresses issues including, but not limited to, the following: (i) strictly controlling the area of demolition and removal to ensure that the total area of demolition and removal is less than that of the previous year; (ii) strictly administering the procedures of demolition and removal, such procedures to be carried out in an open, fair and just manner; (iii) strengthening the supervision and administration of the compensation costs incurred for the demolition and removal, and ensuring the completion of the relocation; and (iv) strictly punishing certain illegal actions in relation to the demolition and removal.

On January 21, 2011, the State Council promulgated the Regulation on Expropriation and Compensation Related to Buildings on State-owned Land (國有土地上房屋徵收與補償條例) (the “Expropriation and Compensation Regulation”), which replaced the Administration Rules of Demolition and Removal of Housing in Urban Areas. The Expropriation and Compensation Regulation provides that, among other things:

- (i) buildings can be expropriated under certain circumstances for public interests, and only governmental authorities can be in charge of resettlement activities; real estate developers are prohibited from being involved in demolition and relocation procedures;
- (ii) compensation shall be paid before the resettlement;
- (iii) compensation to owners of properties to be demolished cannot be less than the market value of similar properties at the time of expropriation. The market value of properties shall be determined by qualified real estate appraisal institutions in accordance with

appraisal rules related to property expropriation. Any owner who does not agree with the appraised market value of the property can apply to the real estate appraisal institution for re-appraisal; and

- (iv) neither violence nor coercion may be used to force homeowners to leave sites, nor can certain measures, such as illegally cutting water and power supplies, be used in relocation work.

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. A large tract development project consists of comprehensive development of an area to be suitable for industrial, leveling of the land and 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 thereon.

Once the developer identifies a piece of land for development and obtains the land use rights certificate, it has to apply for a construction land use planning certificate (建築用地規劃許可證) from the relevant planning commission. Once this certificate is obtained, the developer will have to submit a detailed plan for the design of buildings and construction in order to obtain construction works planning permit (建設工程規劃許可證) and work commencement permit (建設工程施工許可證).

A property project developed by a property developer shall comply with the relevant laws and other statutes, requirements on construction quality, safety standards and technical guidance on survey, design and construction work, as well as provisions of the relevant contract. After completion of works for a project, the property developer shall organize an acceptance examination according to the “Regulations on the Administration of Quality of Construction Works” (建設工程質量管理條例) promulgated and implemented by State Council on January 30, 2000, and the Interim Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收暫行規定) promulgated by the Ministry of Construction in June 2000, and shall also report details of the acceptance examination according to the Administrative Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築和市政基礎設施工程竣工驗收備案管理辦法) promulgated by the Ministry of Construction in April 2000 and as amended in October 2009. A property development project may only be delivered after passing the necessary acceptance examination, and may not be delivered before the necessary acceptance examination is conducted or without passing such an acceptance examination. For a housing estate or other building complex project, an acceptance examination shall be conducted upon completion of the whole project and where such a project is developed in phases, an acceptance examination may be carried out for each completed phase.

Qualifications of a Property Developer

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 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 qualifications 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 Regulations on Administration of Development of Urban Real Estate (城市房地產開發經營管理條例), 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 one year from its issuance, while the property development authority may extend the validity to a period of no longer than two 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.

Environmental Protection

The laws and regulations governing the environmental requirements for real estate development in the PRC include the Environmental Protection Law (中華人民共和國環境保護法), the Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例).

Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact study report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant authorities will grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

Pre-sale and Sale

Pursuant to the Urban Real Property Law and the Administrative Measures Governing the Pre-sale of Urban Real Estate (城市商品房預售管理辦法) (the “Administrative Measures”) amended on July 20, 2004, commodity houses which have not been completed may be sold when certain conditions and/or requirements are satisfied.

Pre-sale of commodity houses is regulated by an approval system. Developers who intend to pre-sell their commodity houses shall apply to the relevant Real Estate Administration Department of the People’s Government at city or country level (市、縣人民政府房地產管理部門) and obtain a pre-sale permit.

When commodity houses are pre-sold, the following requirements shall be satisfied according to the Urban Real Property Law and the Administrative Measures:

- (i) the land premium in respect of the land use rights must be paid in full and the land use right certificate must have been obtained;
- (ii) the construction works planning permit and the work commencement permit must have been obtained;
- (iii) funds contributed to the development of the project shall amount to at least 25% of the total amount of the project investment, and project progress and the date of completion of the project for use must have been ascertained; and
- (iv) the pre-sale permit must have been obtained through pre-sale registration.

The Ministry of Construction, National Development and Reform Commission jointly promulgated the Notice of Further Rectifying the Trade Order of Real Estate (關於進一步整頓規範房地產交易秩序的通知) on July 6, 2006. The purpose of this notice is to strengthen the regulation over the pre-selling of real estate. The notice provides that real estate development enterprises shall sell commodity residential properties within 10 days after obtaining the pre-sale permit.

On April 13, 2010, the MOHURD issued the “Circular on further strengthening on real estate market supervision and improvement of the commercial housing pre-sale system (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 stipulates that:

- the property developer shall not charge the earnest or advance from the purchaser in forms of subscription, order or grant of VIP card in relation to the project that has not obtained the pre-sale permits;
- property developer shall disclose all the housing that are permitted to be sold in one time and the price of each housing within 10 days after obtaining the pre-sale permits;

- pre-sale permits can only be issued to entire buildings, in addition, pre-sale permit shall not be issued to individual floors or units;
- property developer shall produce commercial housing pre-sale program and sell the commercial housing in accordance with such program. The program shall include basic information of the project, such as construction schedule, number of pre-sale housing, predicted size, the areas of public space and public facilities, sale prices and the range of changes in sale prices and the monitoring system on pre-sale proceeds. The pre-sale program and all material changes to such program shall be reported to the relevant authorities for record and be published;
- all the pre-sale proceeds shall be deposited into accounts under monitoring to ensure the legitimate use for project construction; and
- the property developer shall take the primary responsibility for the quality of properties it has developed, while the enterprises of survey, design, construction and supervision shall also take the respective responsibility accordingly.

On March 16, 2011, NDRC promulgated the Regulation on Price of Commodity Property (商品房銷售明碼標價規定), which will take effect on May 1, 2011. According to the regulation, property developers are required to make public the sale price of each of apartment of the commodity properties for sale or pre-sale and the number of apartments available for sale or pre-sale within a certain time period. Property developers are also required to state factors that would affect housing prices and relative charges before the property transaction, such as commission fee and property management fee. No additional charge beyond what is stated in the price tag or made public by the property developers is permitted.

Commodity buildings may be put to post-completion sale after they have passed the clearance examination and otherwise satisfy the various preconditions for such sale. Before the post-completion sale of a commodity building, the developer must, among other things, submit the Real Estate Development Project Manual and other documents evidencing the satisfaction of preconditions for post-completion sale to the real estate development authority for its record.

Transfer of Real Estate

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

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

- the land premium has been paid in full for the grant of the land use rights as provided by the land grant contract and a land use rights certificate has been properly obtained;
- in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed;

- in case of a whole land lot development project, construction works have been carried out as planned, water supply, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been leveled made ready for industrial or other construction purposes; and
- in case of where the real property has been completed in construction, the property ownership certificate shall be obtained.

If the land use rights were originally obtained by grant, the term of the land use rights after transfer of the real estate will be the remaining portion of the original term provided the land grant contract after deducting the time that has been used by the former land users. In the event that the assignee intends to change the use of the land provided in the original grant contract, consent must first be obtained from the original land use rights grantor and the planning administration authority at the relevant city or county and an agreement to amend the land grant contract or a new land grant contract must be signed in order to, among others, change the use of the land and adjust the land premium accordingly.

If the land use rights were originally obtained by allocation, such allocation may be changed to land use rights grant if approved by the government vested with the necessary approval power as required by the State Council. After the government authorities vested with the necessary approval power approve such change, the grantee must complete the formalities for the grant of the land use rights and pay the land premium according to the relevant statutes. Land for industry (including warehouse land, but excluding mining land), commercial use, tourism, entertainment and commodity housing development must be assigned by competitive bidding, public auction or listing-for-sale under the current PRC laws and regulations.

Real Estate Loans

According to the Notice of the People's Bank of China Regulating Home Financing Business (中國人民銀行關於規範住房金融業務的通知) promulgated by PBOC in June 2001, all banks must comply with the following requirements before granting residential development loans, individual home mortgage loans and individual commercial property mortgage loans:

- Housing development loans from banks may only be granted to real estate developers with development qualification and credit ratings in the higher categories. Such loans may be offered to residential projects with good market potential. While the borrowing enterprise's internal capital shall not be less than 30% of the total investment required for the project, the project itself must have been issued with a "State-Owned Land Use Rights Certificate," "Construction Land Planning Permit," "Construction Works Planning Permit" and "Construction Works Commencement Permit."
- In respect of the grant of individual home mortgage loans, the ratio between the loan amount and actual value of the collateral (the "Mortgage Ratio") may never exceed 80%. Where an individual applies for a home purchase loan to buy a pre-sale property, the property must have achieved the stage of "topping-out of the main structure completed" for multi-storey buildings and "two-thirds of the total investment completed" for high-rise apartment buildings.

- In respect of the grant of individual commercial use building mortgage loans, the Mortgage Ratio for commercial use building mortgage loans may not exceed 60% with a maximum loan period of 10 years and the subject commercial use building already completed.

On June 5, 2003, the PBOC promulgated the Notice on Further Strengthening the Administration of Real Estate Loans (關於進一步加強房地產信貸業務管理的通知). According to the notice, the commercial banks shall focus their business towards supporting real estate projects targeted at mid to lower-income households and appropriately restrict the granting of real estate loans to projects involving spacious apartments, luxurious apartments and villas. The notice strictly prohibits banks from advancing working capital loans to real estate developers. When applying for a real estate loan, the real estate developer's own capital in any proposed real estate project should not be less than 30% of the total investment of the project. The notice also prohibits loans advanced for the payment of land premium for land use rights.

On August 12, 2003, the State Council (國務院) published the Notice by the State Council on Facilitating Sustained and Healthy Development of Real Estate Market (國務院關於促進房地產市場持續健康發展的通知), which provides a series of measures to control the property market, including but not limited to increasing the supply of common residential houses, controlling the construction of high-end commodity houses, and strengthening the supervision of the real property administration. The purpose of the notice is to create a positive influence on the long-term development of the property market in China.

Pursuant to the Guidance on Risk Management of Property Loans Granted by Commercial Banks (商業銀行房地產貸款風險管理指引) issued by China Banking Regulatory Commission in August 2004, commercial banks may not provide any loan in any form for a project without the State-owned land Use Rights Certificate, Construction Land Use Planning Permit, Construction Works Planning Permit and Construction Works Commencement Permit. Any property developer applying for property development loans must have invested at least 35% of capital required for the development and a commercial bank should maintain a strict project approval mechanism for processing applications for property development loans.

On August 30, 2004, CBRC issued a Guideline for Commercial Banks of Risks of Real Estate Loans (商業銀行房地產貸款風險管理指引). According to the guideline, no loan shall be granted to projects which have not obtained the land use right certificate, construction land planning permit, construction works planning permit and work commencement permit. The guideline also stipulated that not less than 35% of the total investment in a property development project must come from the real estate developer's own capital for the project (項目資本金) in order for banks to extend loans to the real estate developer. In addition, the guideline requires commercial banks to set up strict approval systems for loan grants.

Under the "Notice of the People's Bank of China on Adjusting the Housing Credit Policies of Commercial Banks and Deposit Interest Rate of the Excess Part of the Reserve" (中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知) issued by PBOC on March 16, 2005 and effective from March 17, 2005, the minimum amount of down payment for an individual residence shall be increased from 20% to 30% of the purchase price for properties in cities where the property market is considered to be overheating.

In May 2006, the General Office of the State Council issued an opinion developed by the Ministry of Construction (and relevant departments) on Adjustment of Housing Supply Structure and Stabilization of Property Prices (關於調整住房供應結構穩定住房價格的意見). According to the

opinion, in order to curtail the rapid rise in property prices, from June 1, 2006, the minimum amount of down payment for individual housing shall not be less than 30%. However, considering the housing needs of low- and middle-income earners, the minimum down payment for self-occupied housing with a GFA of less than 90 square meters per unit remains unchanged, and shall not be less than 20%.

In September 2007, PBOC and CBRC promulgated a Circular on Strengthening the Management of Commercial Real-estate Credit Loans (關於加強商業性房地產信貸管理的通知), with a supplement issued in December 2007. The circular aims to tighten the control over real-estate loans from commercial banks to prevent granting excessive credit. The measures, among others, include: prohibiting commercial banks from providing loans to real-estate developers who have been found by relevant government authorities to be hoarding land and properties. In addition, commercial banks are also banned from providing loans to the projects that have less than 35% of capital funds (proprietary interests), or fail to obtain land use right certificates, construction land planning permits, construction works planning permits or construction permits. Commercial banks are also prohibited from accepting commercial premises that have been vacant for more than three years as collateral for loans. In principle, real-estate development loans provided by commercial banks should only be used for the projects where the commercial banks are located. Commercial banks may not provide loans to property developers to finance the payment of land premium.

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

In July 2008, PBOC and CBRC jointly issued the Notice on Financially Promoting the Saving and Intensification of Use of Land (關於金融促進節約集約用地的通知), requiring that relevant financial institutions to strengthen the administration of construction land project loans, including the administration of commercial real estate credit loan.

On October 22, 2008, PBOC promulgated the Notice on Several Issues Regarding the Expansion of Downward Floating Interest Rate for Commercial Individual Housing Loans (關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知), which provides that, effective October 27, 2008, the float-down range for interest rate for individual mortgage loans is expanded and the ratio of down payments is be adjusted. As a result, the minimum interest rate for individual mortgage loans is 70% of the benchmark loan interest rate and the minimum down payment ratio is adjusted to 20%.

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

According to an opinion on Adjusting the Portion of Capital for Fixed Assets Investment (國務院關於調整固定資產投資項目資本金比例的通知) issued by the State Council in May 2009, the capital ratio for protected housing projects and ordinary commodity housing projects is adjusted from 35% to 20%, and the capital ratio for other property is adjusted from 35% to 30%. Financial institutions shall decide based on the capital ratio adjustments whether or not to issue loans to real estate companies.

The General Office of the State Council issued the Circular on Accelerating the Stable and Smooth Development of Real Estate Market (關於促進房地產市場平穩健康發展的通知) on January 7, 2010. The Circular reinforces the enforcement of differentiated credit policy. In addition to continuing to support the first-time purchase of common housing with loans, the government strengthens the administration for the second housing bought with loans. It provides that the down payment for the second housing bought with loans shall not be less than 40% of the total price. The interest rate will be adjusted based on risk pricings.

On April 17, 2010, the State Council issued the “Notice on Resolutely Curbing the Rapid Rising of the House Price in Certain Cities” (Guofa (2010) No. 10) (國務院關於堅決遏制部分城市房價過快上漲的通知) which stipulated that down payment for the first property that is larger than 90 sq. m. shall not be less than 30% of the purchase price; down payment for the second property bought with mortgage loans shall be not less than 50% of the purchase price and the loan interest rate shall be not less than 1.1 times the benchmark lending rate published by the PBOC. In addition, the down payment and interest rate shall significantly increase for the third or further properties bought with mortgage loans. In certain areas where commodity residential property is in short supply and prices rise too quickly, the banks may suspend granting mortgage loans for the third or further properties bought with mortgage loans or to non-local residents who cannot provide any proof of tax or social insurance payment more than one year.

Three authorities, including the MOHURD, PBOC and CBRC, jointly released the Circular on Regulating the Standards for recognizing the Second House in Commercial Housing Loans for Individuals (關於規範商業性個人住房貸款中第二套房認定標準的通知Circular) on May 26, 2010, so as to regulate cognition of the second house of applicants for commercial housing loans (hereinafter referred to as the loan applicants). Under the Circular, number of houses owned by a family in the commercial housing loans for individuals shall be calculated according to number of sets of houses which are actually owned by members (including the loan applicant and his/her spouse and under-age children, hereinafter the same) of the family who plans to purchase a house. The Circular also stipulated that house purchasers shall check the house registration records of the family via the house registration system, and shall provide the results in written. The loan applicant shall provide the credit guarantee in written to prove the actual number of houses owned by his/her family.

On September 29, 2010, the PBOC and the CBRC jointly issued the Circular on Issues Concerning Improving Differentiated Housing Loan Policies (關於完善差別化住房信貸政策有關問題的通知), which stipulates that all commercial banks shall suspend issuing housing loans to home buyers whose family members already own two or more housing properties and to non-local residents who cannot provide evidence showing that they have paid taxes or social insurance contribution for more than one year.

On November 2, 2010, the Ministry of Finance, the MOHURD, the CBRC and the PBOC jointly issued the Circular on Issues Concerning Policies on Regulation of Personal Housing Provident Fund Loan (關於規範住房公積金個人住房貸款政策有關問題的通知), which provides that where personal housing provident fund loan is used to buy the first ordinary self-use house and the

floor area of the house is no more than 90 sq.m., the down-payment proportion shall not be lower than 20%; where the floor area of the house is more than 90 sq.m., the down-payment proportion shall not be lower than 30%. On January 26, 2011, the State Council issued the Notice Concerning Further Strengthening the Macroeconomic Control of Real Property Market (關於進一步做好房地產市場調控工作有關問題的通知), according to which, the minimum down payment is raised to 60% for second-house purchases with the minimum lending interest rate at 110% of the benchmark rate. See “ — National Legislation.”

Property Management

According to the Catalog of Guidance on Industries for Foreign Investment (外商投資產業指導目錄), property management falls within the category of permitted foreign-invested industries. Before the State Administration for Industry & Commerce (“SAIC”) registers a foreign-invested enterprise as a foreign-invested real estate management enterprise, the foreign-invested real estate management enterprise should obtain an approval from the relevant department of commerce and receive a “foreign-invested enterprise approval certificate.”

According to the Regulation on Real Estate Management (物業管理條例) enacted by the State Council on June 8, 2003 and enforced on September 1, 2003, as amended on August 26, 2007 and effective on October 1, 2007, the state implements a qualification scheme system in monitoring the real estate management enterprises.

According to the Measures for Administration of Qualifications of Real Estate Management Enterprises (物業管理企業資質管理辦法) enacted by the Ministry of Construction on March 17, 2004 and enforced on May 1, 2004, a newly established real estate management enterprise shall, within 30 days of receiving its business license, apply to the applicable local authority for the grant of qualification certificate. The applicable local authority will assess the qualification of the applicant and issue a “real estate management qualification certificate” based on assessment. The Ministry of Construction amended the “Measures for Administration of Qualifications of Real Estate Management Enterprises” on November 26, 2007 and changed its title to Measures for Administration of Qualifications of Real Estate Service Enterprises (物業服務企業資質管理辦法). The amendment removed the requirement of annual inspection of real estate management enterprises and replaced the references to “real estate management enterprises” with references to “real estate service enterprises.”

According to the Measures for the Administration of Qualifications of Real Estate Service Enterprises (物業服務企業資質管理辦法), real estate service enterprise shall be accredited as class one, class two or class three qualification. The Department of Construction of the State Council is responsible for the issuance and administration of the qualification certificate for class one real estate service enterprises. The competent construction departments of the relevant governments of provinces and autonomous regions are responsible for issuing and administrating the qualification certificate for class two real estate service enterprises, and the competent realty departments of the relevant municipal governments directly under the central government are responsible for issuing and administrating the qualification certificate for class two and three real estate service enterprises. The competent realty departments of the people’s governments of the cities divided into districts shall be responsible for the issuance and administration of the qualification certificate of the class three real estate service enterprises.

The real estate service enterprises with class 1 qualification may undertake various property management projects. The real estate service enterprises with class 2 qualification may provide property management services to residential properties of less than 300,000 sq.m. of GFA and non-

residential properties of less than 80,000 sq.m. of GFA. The real estate service enterprises with class 3 qualification may provide property management services to residential properties with less than 200,000 sq.m. of GFA and non-residential properties with less than 50,000 sq.m. of GFA.

According to the “Regulation on Real Estate Management” (物業管理條例), the general meeting of owners in a property can appoint or dismiss the property management service provider with affirmative votes of more than half of the owners who in the aggregate hold more than 50% of the total uncommunal area of the property. 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.

Hotel Development

According to the the Catalog of Guidance on Industries for Foreign Investment (外商投資產業指導目錄), construction and operation of high-end hotels falls within the category of “restricted foreign investment industry.” Construction and operation of common and economic hotels other than high-end hotels fall within the category of “permitted foreign investment industry.” A foreign-invested enterprise in the hotel business should apply for an approval with the relevant department of commerce, and obtain an approval certification for a foreign-invested enterprise before registering with the administration of industry and commerce.

Hotel developments in China are also subject to regulations governing property development generally, including those relating to land use, project planning and construction. Currently, no dedicated regulator has been designated for the hotel industry in the PRC. The governmental regulation of operation of hotel business is undertaken by different authorities in accordance with the respective business scopes of different hotels.

Supervision on Security and Fire Control

Pursuant to the Measures for the Control of Security in the Hotel Industry (旅館業治安管理办法) issued by the Ministry of Public Security of the PRC and enforced on November 10, 1987, a hotel can start operation only after obtaining an approval from the local public security bureau and being issued a business license. The hotel operators should make a filing with the local public security bureau and its branches in the county or city, if the hotel operators has any material change such as closing, transferring business or merging into other business, changing place of business and name.

Pursuant to the “Provisions on the Administration of Fire Control Safety of State Organs, Organizations, Enterprises and Institutions” (機關、團體、企業、事業單位消防安全管理規定) enacted by the Ministry of Public Security on November 14, 2001 and enforced on May 1, 2002, hotels (or motels) are subject to special regulation in terms of fire control and safety. When a hotel is under construction, renovation or re-construction, a fire control examination procedure is required and when the construction, renovation or re-construction project is completed, a hotel can only open for business after passing a fire control inspection.

Supervision on Public Health

According to relevant regulations and rules in relation to public health, hotels are subject to public health regulation. The operating enterprise should gain the sanitation license. The measures for granting and managing sanitation license are formulated by public health authority of province,

autonomous region, and municipality directly under the central government. The sanitation license is signed by the relevant public health administration and the public health and epidemic prevention institutions grant the license. The sanitation license should be reviewed once every two years.

Supervision on Catering

According to the relevant regulations and rules in relation to catering services, hotels operating catering services should obtain catering service permits. Catering service permits are granted by food and drug administrative bodies above county level. The purchase, reserve and processing of food, tableware, and service should meet relevant requirements and standards for catering services.

Insurance

There is no mandatory provision under PRC laws and regulations requiring a property developer to obtain insurance policies for its property developments. 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.

Foreign Investment in Property Development

The Urban Land Regulations state that foreign entities may acquire land use rights in China unless the law otherwise provides. However, in order to develop the land acquired, foreign investment enterprises in the form of equity or co-operative joint ventures or wholly foreign-owned enterprises must be established.

According to the Interim Provisions on Approving Foreign Investment Project (外商投資項目核准暫行管理辦法) promulgated by NDRC in October 2004, approval of NDRC is required for foreign investment projects with total investment of US\$100 million or more within the category of encouraged or permitted foreign investments and those with total investment of US\$50 million or more within the category of foreign investments subject to restrictions. Other foreign investments in China will require only local approval. Specifically, the local authorities may examine and approve foreign investment projects with total investment less than US\$100 million within the category of encouraged or permitted foreign investments and those with total investment less than US\$50 million within the category of foreign investments subject to restrictions.

Under the Catalog of Guidance on Industries for Foreign Investment (外商投資產業指導目錄) promulgated by MOFCOM and NDRC in October 2007, the development of a whole land lot, namely primary preparation of a land site including infrastructure construction and utility installation, solely by foreign investors, falls within the category of industries in which foreign investment is prohibited, the joint development of a whole land lot with the PRC partners, as well as the construction and operation of high-end hotels, villas, premium office buildings and international conference centers fall within the category of industries in which foreign investment is subject to restrictions, and other real estate development falls within the category of industries in which foreign investment is permitted. Establishment of a foreign investment enterprise engaged in property development, commonly referred to as a "development company", is subject to approval by the relevant departments of China's government in accordance with relevant laws and regulations. To establish a foreign investment enterprise, the joint venture partners must submit a project

application report to the central or local development and reform authority for project approval. At the same time, the parties typically proceed to negotiate and execute the joint venture contract and articles of association for the establishment of development company. The project application report, the joint venture contract and/or articles of association shall then be submitted to the central or local foreign economic and trade authorities in their respective capacities for approval. Having obtained the approval certificate, the foreign investor and/or the domestic party can apply to the relevant industry and commerce authority for a foreign investment enterprise business license for the development company. In addition, all property development companies, including foreign investment enterprises, are also required to apply for a property development enterprise qualification certificate (房地產開發企業資質證書) from the central or local construction authority.

On July 11, 2006, the Ministry of Construction, the MOFCOM, the National Development and Reform Commission, PBOC, SAIC and SAFE jointly promulgated the Opinions on Foreign Investment in Real Estate (關於規範房地產市場外資准入和管理的意見), which states that: (i) an overseas entity or individual investing in real estate in China other than for self-use, shall apply for the establishment of a FIREEs in accordance with applicable PRC laws and shall only conduct operations within the authorized business scope after obtaining the relevant approvals from and registering with the relevant governmental authorities; (ii) the registered capital of a FIREEs with a total investment of US\$10 million or more shall not be less than 50% of its total investment amount, whereas for FIREEs with a total investment of less than US\$10 million, the current rules on registered capital shall apply; (iii) a newly established FIREEs can only obtain an approval certificate and business license which are valid for one year. The approval certificate and business license can be obtained by submitting the land use right certificate to the relevant government departments after the land grant premium for the land has been paid; (iv) an equity transfer of a FIREEs or the transfer of its projects, as well as the acquisition of a domestic real estate enterprise by foreign investors, must first be approved by the commerce authorities. The investor shall submit a letter to the commerce authorities confirming that it will abide with the land grant contract, the construction land planning permit (建設用地規劃許可證) and the construction works planning permit (建設工程規劃許可證). In addition, the investor shall also submit the land use right certificate, the registration of change of investor and evidence from the tax authorities confirming that tax relating to the transfer has been fully paid; (v) foreign investors acquiring a domestic real estate enterprise through an equity transfer, acquiring the Chinese investors' equity interest in an equity joint venture or through any other methods shall pay the purchase price in a lump sum and with its own capital and shall ensure that the enterprise's employees and bank loans are treated and dealt with in accordance with applicable PRC laws; (vi) if the registered capital of a FIREEs is not fully paid up, its land use right certificate has not been obtained or the paid-in capital is less than 35% of the total investment amount of the project, the FIREEs is prohibited from borrowing from any domestic or foreign lenders and SAFE shall not approve the settlement of any foreign loans; (vii) the investors in a FIREEs shall not in any manner stipulate a fixed return clause or equivalent clause in their joint venture contract or in any other documents; (viii) a branch or representative office established by a foreign investor in China (other than a FIREEs), or a foreign individual working or studying in the PRC for more than one year, is permitted to purchase commodity residential properties located in the PRC only for the purpose of self-residence. Residents of Hong Kong, Macau and Taiwan and overseas Chinese may purchase commodity residential properties of a stipulated floor area based on their living requirements in the PRC for self-residence purposes.

In August 2006, the General Office of MOFCOM issued a notice on the implementation of the "Opinion on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market" (關於貫徹落實〈關於規範房地產市場外資准入和管理的意見〉有關問題的通知). The

notice requires that, the registered capital of a FIREEs shall not be less than 50% of its total investment if its total investment exceeds US\$3.0 million, and the registered capital of a FIREEs shall not be less than 70% of its total investment if its total investment is US\$3.0 million or less.

In May 2007, MOFCOM and SAFE issued the Circular on Strengthening and Regulating the Examination and Approval and Supervision of Foreign Direct Investment in the Real Estate Sector (關於進一步加強、規範外商直接投資房地產業審批和監管的通知) (“Circular 50”). Under Circular 50, prior to applying for establishment of real estate companies, foreign investors must first obtain land use rights and building ownership, or must have entered into pre-sale or pre-grant agreements with respect to the land use rights or building ownership. If foreign-invested enterprises in China engage in real estate development or operations or if FIREEs in China engage in new real estate project developments, they must first apply to the relevant PRC governmental authorities to expand their scope of business or scale of operations in accordance with the PRC laws and regulations related to foreign investments. In addition, the local PRC governmental authorities must file with MOFCOM for record their approvals of establishment of FIREEs, and must exercise due control over foreign investments in high-end properties. Foreign exchange authorities may not allow capital-account foreign exchange sales and settlements by FIREEs that have been established in contravention of these requirements.

In July 2007, SAFE issued a Notice on the Distribution of the List of the First Group of Foreign Invested Real Estate Projects Filed with MOFCOM (關於下發第一批通過商務部備案的外商投資房地產項目名單的通知) (“Notice 130”), together with a list of FIREEs that had effected their filings with MOFCOM. According to Notice 130, SAFE will no longer process foreign debt registrations or applications by FIREEs for permission to purchase foreign exchange to service their foreign debt if such FIREEs have not obtained their approval certificates from the government before June 1, 2007. As a result of Notice 130, unless the approval certificate of an FIREEs as of May 31, 2007 contained an aggregate investment amount, which includes its registered capital and foreign debt amount, sufficient to permit foreign currency to be injected into its operations in China, such FIREEs effectively will no longer be able to borrow foreign debt including shareholder loans and overseas commercial loans to finance their operations in China. It can only use its capital contributions instead. SAFE further provided in its Notice 130 that it will not process any foreign exchange registration (or change of such registration) or application for settlement of foreign currency under capital account by any FIREEs if it has obtained the relevant approval certificates from local government authorities on or after June 1, 2007 but has not completed its filing with MOFCOM.

In connection with the filing requirement, MOFCOM issued the Notice on the Proper Filings of Foreign Investment in the Real Estate Sector (關於做好外商投資房地產業備案工作的通知) in June 2008 to authorize the competent MOFCOM at the provincial level to verify and check the filing documents.

On April 6, 2010, the State Council issued the Opinions on Further Enhancing the Utilization of Foreign Investment (關於進一步做好利用外資工作的若干意見), which provides that, the projects with total investment (including capital increase) less than US\$300 million within the category of industries in which foreign investment is encouraged or permitted as listed in the Catalog of Guidance on Industries for Foreign Investment, may be approved by local governments, except for those required to be approved by relevant departments of the State Council under the Catalogue of Investment Projects Approved by the Government (政府核准的投資項目目錄).

On May 4, 2010, the National Development and Reform Commission (NDRC) issued the Circular on Doing a Good Job in Delegating the Power to Verify Foreign-invested Projects (關於做好外商投資項目下放核准權限工作的通知, Circular), specifying that the power to verify foreign-invested projects shall be delegated and project verification procedures shall be simplified.

Under the Circular, projects set out in the Guideline Catalogue of Foreign-invested Industries that are encouraged or permitted by the state with total investment (including additional capital) of US\$300,000,000 or less shall, other than those that should be verified by relevant departments under the State Council in accordance with the Catalogue of Investment Projects Approved by the Government, be verified by the development and reform commission at the provincial level.

The Circular specifies that, after the power to verify is delegated, project application reports, content, conditions and procedure of verification shall still be determined in accordance with the Tentative Administrative Measures for Verification of Foreign-invested Projects. The power to verify projects restricted by the state as set out in the Guideline Catalogue of Foreign-invested Industries is not to be delegated for the time being.

On June 10, 2010, MOFCOM released the Circular on Issues Concerning Delegating the Examination and Approval Authority for the Foreign Investment ((關於下放外商投資審批權限有關問題的通知) Circular). Under the Circular, local authorities shall examine and approve and administrate the establishment and replacement of foreign-invested enterprises which are subject to the encouraged and permitted catalogues of the Guiding Catalogues of Foreign-invested Industries and with a total investment volume valued at US\$300 million and those which are subject to the restricted catalogues and with a total investment volume valued at US\$50 million.

The Circular stipulated that establishment and replacement of foreign-invested enterprises whose registered capital is lower than 300 million US dollars and the foreign-invested venture capital enterprises and foreign-invested venture capital management enterprises whose total capital is lower than 300 million US dollars shall be examined and approved and administrated by local authorities.

On November 22, 2010, MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into Real Estate Industry (關於加強外商投資房地產業審批備案管理的通知), which provides that, among other things, in the case that a real estate enterprise is established in China with overseas capital, it is prohibited to purchase and/or sell real estate properties completed or under construction for arbitrage purposes. The local MOFCOM authorities are not permitted to approve investment companies to engage in the real estate development and management.

Foreign Exchange Controls

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to December 31, 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the Bank of China (中國銀行) or other designated banks. Such conversion had to be effected at the official rate prescribed by SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, the

foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center had to obtain the prior approval of the SAFE (國家外匯管理局).

On December 28, 1993, PBOC, under the authority of the State Council (國務院), promulgated the Notice of the PBOC Concerning Further Reform of the Foreign Currency Control System (中國人民銀行關於進一步改革外匯管理體制的公告), effective from January 1, 1994. The notice announced the abolition of the foreign exchange quota system, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On March 26, 1994, the PBOC promulgated the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯暫行管理規定) (the “Provisional Regulations”), which set out detailed provisions regulating the trading of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On January 1, 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which is determined by demand and supply of Renminbi. Pursuant to such systems, the PBOC sets and publishes the daily Renminbi-US dollar exchange rate. Such exchange rate is determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. Also, the PBOC, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by the PBOC.

On January 29, 1996, the State Council promulgated Regulations for the control of Foreign Exchange (中華人民共和國外匯管理條例) (“Control of Foreign Exchange Regulations”) which became effective from April 1, 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on January 14, 1997 and on August 5, 2008. Such amendment affirms that the State shall not restrict international current account payments and transfers.

On June 20, 1996, PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (the “Settlement Regulations”) which became effective on July 1, 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC published the Announcement on the Implementation of Foreign Exchange Settlement and Sale Banks by Foreign-invested Enterprises (外商投資企業實行銀行結售匯工作實施方案). The announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange, and specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On October 25, 1998, PBOC and SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (關於停辦外匯調劑業務的通知) pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC

for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprises shall be regulated under the system for the settlement and sale of foreign exchange applicable to banks.

On July 21, 2005, the PBOC announced that, beginning from July 21, 2005, China will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar. The PBOC will announce the closing price of a foreign currency such as the US dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of the Renminbi on the following business day.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (except for foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares is not required to be sold to designated banks, but may be deposited in foreign exchange accounts with designated banks.

Enterprises in China (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, upon presentation of valid receipts and proof. Foreign-invested enterprises which need foreign currencies for the distribution of profits to their shareholders, and Chinese enterprises which, in accordance with regulations, are required to pay dividends to shareholders in foreign currencies, may with the approval of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE or its competent branch.

In January and April 2005, SAFE issued two regulations that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE also announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardization of all cross-border flows of funds.

The Control of Foreign Exchange Regulations was amended by the State Council on August 1, 2008 and came effective on August 5, 2008. Under the revised Control of Foreign Exchange Regulations, the compulsory settlement of foreign exchange is dropped. As long as the capital inflow and outflow under the current accounts are based upon real and legal transactions, individuals and entities may keep their income in foreign currencies inside or outside China according to the provisions and terms to be set forth by the SAFE. The foreign exchange income generated from current account transactions may be retained or sold to financial institutions engaged in foreign currency settlement and exchange. Whether to retain or sell the foreign exchange income generated from capital account transactions to financial institutions is subject to approvals from the SAFE or its branches, except for otherwise stipulated by the State. Foreign exchange or settled Renminbi of capital account must be used in the way as approved by the SAFE or its branches, and the SAFE or

its branches are empowered to supervise the utility of the foreign exchange or settled Renminbi of capital account and the alterations of the capital accounts. The Renminbi follows a managed floating exchange rate in line with the market demand and supply. A domestic individual or entity who conducts the overseas direct investment or overseas issue and transaction of negotiable securities and derivative financial products shall file with competent authorities of the PRC. Furthermore, such individual or entity shall apply for the approval on such investment, issue or transaction form relevant authorities prior to the filing if otherwise required by relevant PRC laws and regulations.

On August 29, 2008, the General Affairs Department of SAFE issued a Notice with Regard to the Issue of Administration of Settlement of Foreign Currency Capital of Foreign Investment Enterprises (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知). This notice further regulates the administration of settlement of foreign currency capital of foreign investment enterprises within the PRC.

According to the notice, prior to applying for settlement of foreign currency capital with designated banks, foreign investment enterprises must undergo capital verification by an accountancy firm. The designated banks should not engage in settlement of foreign currency capital for enterprises that have not completed the process of capital verification. Furthermore, the total amount of foreign exchange settled by a designated bank for a foreign investment enterprise should not exceed the total capital audited. The designated banks must comply with the SAFE administration rules of settlement based on actual payment when engaging in foreign currency capital settlement with foreign investment enterprises.

Funds in Renminbi obtained by foreign investment enterprises through foreign currency capital settlement may only be used within the business scope approved by the government authorities. Furthermore, such funds shall not be used for equity investments within the PRC unless otherwise stipulated. Except for foreign-invested real estate enterprises, foreign investment enterprises may not use funds in Renminbi obtained through foreign currency capital settlement to purchase real estate for any purposes other than its own occupancy. Should a foreign investment enterprise wish to use funds in Renminbi obtained through foreign currency capital settlement to purchase securities, it must act in compliance with the relevant PRC regulations. Any transfer of funds for the sake of equity investment in the PRC by foreign-invested investment enterprises approved by the MOFCOM must first undergo examination and approval by the SAFE, or its local branches. Any profits obtained by PRC entities or individuals through the sale of equities or interests in PRC enterprises to foreign investors must be conducted through an account reserved exclusively for foreign exchange. The opening of such account, and any related transferral of funds, must undergo examination and approval by the local branches of SAFE as provided by the relevant regulations.

On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) which became effective as at November 1, 2005. The notice replaced the two regulations issued by SAFE in January and April 2005 mentioned above. According to the notice, “special purpose company” (特殊目的公司) refers to the offshore company established or indirectly controlled by the PRC residents for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprise. Prior to the establishing or assuming control of such special purpose company, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. The notice applies retroactively. As a result, PRC residents who have established or acquired control of such offshore companies that have made onshore investments in the PRC in the

past are required to complete the relevant overseas investment foreign exchange registration procedures by March 31, 2006. In addition, any PRC resident who is the shareholder of an offshore special purpose company is required to update its SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in the PRC.

On September 1, 2006, the Ministry of Construction and SAFE promulgated the Circular on the Issues Concerning the Regulation of Foreign Exchange Administration of the Real Estate Market (關於規範房地產市場外匯有關問題的通知). This circular states that: (i) where foreign exchange is remitted for a real estate purchase, the foreign purchaser shall be subject to examination by the designated foreign exchange bank. The remitted funds shall be directly remitted by the bank to the RMB account of the real estate development enterprise and no payment remitted from abroad by the purchasers shall be kept in the foreign exchange current account of the real estate development enterprises; (ii) where the real estate purchase fails to complete and the foreign purchaser intends to remit the purchase price in RMB back to foreign currencies, the foreign purchaser shall be subject to examination by the designated foreign exchange bank; (iii) when selling real estates in China and the purchase price received in RMB is remitted to foreign currencies, the foreign purchaser shall be subject to examination by the local branch of SAFE; and (iv) if the registered capital of a FIREEs is not fully paid up, its land use right certificate has not been obtained or the paid-in capital is less than 35% of the total investment amount of the project, the FIREEs is prohibited from borrowing from any domestic or foreign lenders and SAFE shall not approve the settlement of any foreign loans.

Taxation in China

Income Tax

Prior to the 2008 Tax Law (中華人民共和國企業所得稅法) and its implementation rules that became effective on January 1, 2008, our PRC subsidiaries and joint ventures were generally subject to a 33% corporate income tax. Under the new income tax law, effective from January 1, 2008, a unified enterprise income tax rate is set at 25% for both domestic enterprises and foreign-invested enterprises. The 2008 Tax Law and its implementation rules provide certain relieves to enterprises that were established prior to March 16, 2007, including (1) continuously enjoying the preferential income tax rate during a five-year transition period if such enterprises are entitled to preferential income tax rate before the effectiveness of new Enterprises Income Tax Law; (2) continuously enjoying the preferential income tax rate until its expiry if such enterprises are entitled to tax holidays for a fixed period under the relevant laws and regulations. However, where the preferential tax treatment has not commenced due to losses or accumulated loss not being fully offset, such preferential tax treatment shall be deemed to commence from January 1, 2008 and expire on December 31, 2013. In addition, dividends from PRC subsidiaries to their foreign shareholders will be subject to a withholding tax at a rate of 10% unless any lower treaty rate is applicable. However, under the new tax law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in China are treated as “resident enterprises” for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Under the implementation rules of the new Enterprise Income Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Because this tax law is new and its implementation rules are newly issued, there is uncertainty as to how this new law and its implementation rules will be interpreted or implemented by relevant tax bureaus.

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), which was promulgated in 1994 and amended in 2008. The activities to which the business tax applies include construction, leases and sales of real estate properties in China. The tax is a turnover tax charged on gross revenue. No deduction of the tax incurred on purchased services or materials is allowed. However, deductions from gross revenue are allowed for subcontracting fees paid among the transportation, tourism and construction industries. 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.

In December 2009, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties (關於調整個人住房轉讓營業稅政策的通知) to curtail speculations in the property market in response to the property price rises across the country. Pursuant to the Notice, effective from January 1, 2010, business tax will be imposed on the full amount of the sale income upon the transfer of non-ordinary residence by an individual within five years, from the purchase date. For the transfer of non-ordinary residence which is more than five years from the purchase date and ordinary residence which is within five years of the purchase date, the business tax is to be levied on the difference between the sale income and the purchase prices. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date.

In January 27, 2011, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties (關於調整個人住房轉讓營業稅政策的通知), under which business tax is imposed on (i) the full amount of the transfer price upon the transfer of any residential property by an individual owner within five years from such individual owner's purchase and (ii) the difference between the transfer price and the original purchase price upon the transfer of any non-ordinary residential property by an individual owner more than five years from such individual owner's purchase. Business tax is exempted for ordinary residential properties if the transfer occurs after five years from the individual owner's purchase.

Land Appreciation Tax

Under the PRC Tentative Regulations on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例) of 1994 and its implementation rules of 1995, LAT applies to both domestic and foreign investors in real properties in mainland China, irrespective of whether they are corporate entities or individuals. The tax is payable by a taxpayer on the appreciation value derived from the transfer of land use rights, buildings or other facilities on such land, after deducting the "deductible items" that include the following:

- Payment made to acquire land use rights;
- Costs and charges incurred in connection with land development;
- Construction costs and charges in the case of newly constructed buildings and facilities;
- Assessed value in the case of old buildings and facilities;
- Taxes paid or payable in connection with the transfer of land use rights, buildings or other facilities on such land; and

- Other items allowed by the Ministry of finance.

The tax rate is separated into four categories of progressive tax rates, ranging from 30% to 60% of the appreciation value as compared to the “deductible items” as follows:

<u>Appreciation value</u>	<u>LAT rate</u>
Portion not exceeding 50% of deductible items	30%
Portion over 50% but not more than 100% of deductible items	40%
Portion over 100% but not more than 200% of deductible items	50%
Portion over 200% of deductible items	60%

Exemption from LAT is available to the following cases:

- Taxpayers constructing ordinary residential properties for sale (i.e. the residences built in accordance with the local standard for general civilian used residential properties, excluding deluxe apartments, houses, resorts etc.), where the appreciation amount does not exceed 20% of the sum of deductible items;
- Real estate taken over and repossessed according to laws due to the construction requirements of the state;
- Due to redeployment of work or improvement of living standard, transfers by individuals of originally self-used residential properties, with five years or longer of self-used residence and with tax authorities’ approval.

According to the requirements of the Land Appreciation Tax Provisional Regulations, the Land Appreciation Tax Detailed Implementation Rules and the Notice on the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts Signed before January 1, 1994 (關於對1994年1月1日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知) issued by the Ministry of Finance in January 1995, the LAT regulation does not apply to the following transfers of land use rights:

- Real estate transfer contracts executed before January 1, 1994; and
- First time transfers of land use rights and/or premises and buildings during the five years commencing on January 1, 1994 if the real estate development contracts were executed or the development projects were approved before January 1, 1994 and the capital has been injected for the development in compliance with the relevant regulations.

On December 24, 1999, the Ministry of Finance and the State Administration of Taxation issued the Notice in Respect of the Extension of the Period for the Land Appreciation Tax Exemption Policy (關於土地增值稅優惠政策延期的通知) that extended the period for the Land Appreciation Tax exemption policy as mentioned above to the end of 2000.

After the enactment of the LAT regulations and the implementation rules in 1994 and 1995 respectively, due to the long period of time typically required for real estate developments and their transfers, many jurisdictions, while implementing these regulations and rules, did not require real estate development enterprises to declare and pay the LAT as they did other taxes. 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 (the predecessor of MLR) separately and jointly issued several notices to reiterate that, after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the

real estate is located, and pay the LAT in accordance with the amount as calculated by the tax authority and within the time period 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 will not process the relevant title change procedures, and will not issue the property ownership title certificates.

The State Administration of Taxation issued a further notice, namely, the Notice on Careful Management Work of LAT Collection (關於認真做好土地增值稅徵收管理工作的通知) in July 2002 to require local tax authorities to require prepayment of LAT on basis of proceeds from pre-sale of real estate. This requirement is restated in the Notice of State on Further Strengthening of Administration Work in Relation to the Collection of Land Appreciation Tax and Land Use Tax in Cities and Towns (國家稅務總局關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知) issued on August 5, 2004 by the State Administration of Taxation.

On December 28, 2006, the State Administration of Taxation promulgated the “Circular Concerning the Settlement of the LAT Imposed on Real Property Developers” (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, the “Circular”), effective from February 1, 2007.

LAT must be paid if a project meets any of the following requirements:

- The property development project has been completed and sold out;
- The entire uncompleted and unsettled development project is transferred; or
- The land-use right of the relevant project is transferred.

In addition, the competent tax departments may require a property developer to settle the LAT in any of the following circumstances:

- For completed property development projects, the transferred GFA represents more than 85% of the total saleable GFA, or the proportion represented is less than 85%, 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 permits;
- The developer applies for cancellation of the tax registration without having settled the LAT; or
- Other conditions stipulated by the provincial tax departments.

The tax bureaus at the provincial level will, taking account of the local practical conditions, stipulate specific rules or measures on the management of the LAT settlement in accordance with the Circular.

The State Administration of Taxation issued the Administrative Rules for the Liquidation of Land Appreciation Tax (關於印發〈土地增值稅清算管理規程〉的通知) effective from June 1, 2009. The State Administration of Taxation reiterated the above requirements in the new rules.

On May 19, 2010, the State Administration of Taxation (SAT) has issued the Circular on Issues Concerning Settlement of Land Value-added Tax ((關於土地增值稅清算有關問題的通知) the Circular) which clarifies the revenue recognition in the settlement of land value-added tax and

other relevant issues. According to the Circular, in the settlement of land value-added tax, if the sales invoices of commodity houses are issued in full, the revenue shall be recognized based on the amount indicated in the invoices; if the sales invoices of commodity houses are not issued or are issued in part, the revenue shall be recognized based on the purchase price indicated in the sales contract as well as other income. If the area of a commodity house specified in a sales contract is inconsistent with the result obtained by the relevant authorities after on-site survey and the purchase price is made up or returned before the settlement of land value-added tax, adjustments shall be made in the calculation of land value-added tax. The Circular provides that the deed tax paid by a real estate development enterprise for land use right shall be treated as the “relevant fees paid in accordance with the uniform regulations of the state” and be deducted from the “amount paid for land use right.”

On May 25, 2010, the State Administration of Taxation (SAT) published the Circular on Strengthening the Collection and Administration of Land Value Increment Tax (關於加強土地增值稅徵管工作的通知, “Circular”) to require all local government to scientifically formulate the tax ratio and strengthen the pre-tax of land value increment tax. According to the Circular, all local government shall made adjustments to the current pre-tax ratio. In addition to safeguarding housing, the pre-tax ratio of provinces in the eastern region shall not be lower than 2%, while the provinces in middle and northeastern region shall not be lower than 1.5% and the provinces in western region shall not be lower than 1%; and the local government shall determine the pre-tax ratio applicable to different types of real estate.

Urban Land Use Tax

Pursuant to the Tentative Regulations of the People’s Republic of China on Land Use Tax in respect of 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, the land use tax in respect of urban land is levied according to the area of relevant land. The annual tax on urban land is between RMB0.2 and RMB10.0 per square meter. The Tentative Regulations of the People’s Republic of China on Land Use Tax (中華人民共和國城鎮土地使用稅暫行條例) were revised by the State Council on December 31, 2006. As of January 1, 2007, the annual tax on every square meter of urban land shall be between RMB0.6 and RMB30.0.

Stamp Duty

Under the Tentative Regulations of the People’s Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例) promulgated by the State Council in August 1988, for building property transfer instruments, including those in respect of property ownership transfer, the duty rate is 0.05% of the amount stated therein; for permits and certificates relating to rights, including real estate title certificates and land use rights certificates, stamp duty is levied on an item-by-item basis of RMB5.0 per item.

Deed Tax

Under the PRC Tentative Regulations on Deed Tax (中華人民共和國契稅暫行條例), a deed tax is chargeable to transferees of land use rights and/or ownership in real properties within the territory of mainland China. These taxable transfers include:

- Grant of use right of state-owned land;
- Sale, gift and exchange of land use rights, other than transfer of right to manage rural collective land; and

- Sale, gift and exchange of real properties.

Deed tax rate is from 3% to 5% subject to determination by local governments at the provincial level in light of the local conditions.

On September 29, 2010, the State Administration of Taxation, the Ministry of Finance and the MOHURD issued the Circular on Adjustments to Policies on Preferential Deed Tax and Individual Income Tax on Real Estate Deals (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 where an individual purchases a common house which is the sole house for his/her family (the family members include the purchaser, his/her spouse and minor child(children), same below) to live in, deed tax thereon shall be levied at a reduced half rate. Where an individual purchases a common house of 90 sq.m. or less, which is the sole house for his/her family to live in, the deed tax shall be reduced and levied at the rate of 1%. The tax authority shall inquire about the deed tax payment record of a taxpayer. In respect of individual purchase of common houses that fails to satisfy the above provisions, no preferential tax policies set out above may be enjoyed.

Property Tax

Under the Tentative Regulations of the People's Republic of China on Property Tax (中華人民共和國房產稅暫行條例) promulgated by the State Council in September 1986, property tax is 1.2% if it is calculated on the basis of the residual value of a building and 12% if it is calculated on the basis of the rental.

The State Council recently approved, on a trial basis, the launch of a new property tax scheme in selected cities. The detailed measures will be formulated by the governments of the pilot provinces, autonomous regions or municipalities directly under the central government. 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 Interim Rules of the Trial in Levy of Property Tax on Certain 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), among other things, (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 0.4% or 0.6%, subject to specified circumstances; and (iii) the property tax shall be temporarily payable on the basis of 70% of the transaction value of the taxable house. Moreover, 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 measures issued by the Chongqing government, 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 purchase prices per square meter of which are two or more times of the average price of new 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 ranging from 0.5% to 1.2% of the purchase price of the property. These two governments may issue additional measures to tighten the levy of property tax. It is also expected that more local governments will follow Shanghai and Chongqing to impose property tax on commodity properties.

Municipal Maintenance Tax

Under the Tentative Regulations of the People's Republic of China on Municipal Maintenance Tax (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council in 1985, taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax are required to pay municipal maintenance tax. The tax rate is 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town. Under the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge for Enterprises with Foreign Investment and Foreign Enterprises (關於外商投資企業和外國企業暫不徵收城市維護建設稅和教育費附加的通知) issued by the State Administration of Taxation on February 25, 1994, the municipal maintenance tax is not applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

On October 18, 2010, the State Council issued the Circular on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which provides that from December 1, 2010, the regulations on urban maintenance and construction tax promulgated in 1985 shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners. Laws, regulations, rules and policies on urban maintenance and construction tax promulgated by the State Council and the finance and tax competent authorities under the State Council since 1985 shall be also applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Education Surcharge

Under the Tentative Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council in April 1986 and revised by the State Council in June 1990 and August 2005, any taxpayer, whether an individual or otherwise, of value-added tax, business tax or consumption tax is liable for an education surcharge, unless such taxpayer is 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). Under the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises (關於外商投資企業和外國企業暫不徵收城市維護建設稅和教育費附加的通知) issued by the State Administration of Taxation on February 25, 1994 and the Supplementary Circular Concerning Imposition Of Education Surcharge (國務院關於教育費附加徵收問題的補充通知) issued by the State Council on October 12, 1994, the education surcharge is not applicable to enterprises with foreign investment for the time being.

On October 18, 2010, the State Council issued the Circular on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which provides that from December 1, 2010, the rules on education surcharge promulgated in 1986 shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners. Laws, regulations, rules and policies on education surcharge promulgated by the State Council and the finance and tax competent authorities under the State Council since 1986 shall be also applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

MANAGEMENT

The following table sets forth certain information with respect to our directors and senior management as of December 31, 2010.

Name	Age	Position
Kong Jian Min	43	Chairman and Executive Director
Kong Jian Tao	40	Chief Executive Officer and Executive Director
Kong Jian Nan.	45	Executive vice president and Executive Director
Li Jian Ming	44	Executive Director
Tsui Kam Tim	42	Executive Director, Chief Financial Officer and Company Secretary
He Wei Zhi	43	Executive Director
Yu Yao Sheng	49	Executive Director
Lee Ka Sze, Carmelo	50	Independent non-executive director and a member of audit committee
Dai Feng	69	Independent non-executive director, a member of audit committee and a member of remuneration committee
Tam Chun Fai	48	Independent non-executive director, chairman of audit committee and a member of remuneration committee

Executive Directors

Kong Jian Min, aged 43, is the founder of the Group, an executive director and the Chairman of the Company. Mr. Kong is primarily responsible for the formulation of our development strategies, as well as supervising our project planning, business operation and sales and marketing. Mr. Kong graduated from Jinan University majoring in computer science in 1989. Mr. Kong has over 16 years of experience in property development and investment. Prior to the founding of the Group, Mr. Kong served as a credit officer of the Baiyun Road Sub-Branch of the Guangzhou Branch of Industrial and Commercial Bank of China. Mr. Kong is a brother of Kong Jian Tao and Kong Jian Nan. Saved as disclosed above, Mr. Kong is also a director of all subsidiaries incorporated in the British Virgin Islands, various subsidiaries incorporated in the PRC and one subsidiary incorporated in Hong Kong.

Kong Jian Tao, aged 40, is an executive director and the Chief Executive Officer of the Company. Mr. Kong is responsible for the overall operation of the Group's projects. He has over 16 years of experience in property development and has been a director of the Group since 1995. Saved as disclosed above, Mr. Kong is also a director of all subsidiaries incorporated in the British Virgin Islands, various subsidiaries incorporated in the PRC and one subsidiary incorporated in Hong Kong.

Kong Jian Nan, aged 45, is an executive director and executive vice president of the Company. Mr. Kong is responsible for coordinating and managing human resources, administrative management, IT management and legal affairs of the Group. He is a graduate of China Central Radio and TV University and joined the Group in 1999. Saved as disclosed above, Mr. Kong is also a director of all subsidiaries incorporated in the British Virgin Islands and various subsidiaries incorporated in the PRC and are subsidiary incorporated in Hong Kong.

Li Jian Ming, aged 44, is an executive director of the Company, a vice president of the operations management division and a general manager of the Southern China Region of the Group. Mr. Li graduated from South China University of Technology, majoring in industrial and civil construction. Mr. Li joined the Group in 1994 and had held the position of vice president in the engineering management division. He was appointed as an executive director of the Company in June 2007. Currently, Mr. Li is responsible for the internal operations and management of the Group and the overall operations and management of the Southern China Region. Save as disclosed above, Mr. Li is also a director of one of the subsidiaries incorporated in the PRC.

Tsui Kam Tim, aged 42, is an executive director, the Chief Financial Officer and the Company Secretary of the Company. Mr. Tsui is primarily responsible for the financial management and supervision of financial reporting, corporate finance, treasury, tax and other related finance matters. Mr. Tsui graduated from Australia National University with a bachelor's degree in Commerce and he is a professional member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he was a senior manager of an international firm of certified public accountants. Mr. Tsui joined the Group in January 2007 as the Chief Financial Officer and was appointed as an executive director of the Company in November 2007. Saved as disclosed above, Mr. Tsui is also a director of various subsidiaries incorporated in Hong Kong.

He Wei Zhi, aged 43, is an executive director of the Company, a vice president and a general manager of the South-western China Region of the Group. Mr. He graduated from Guangzhou University majoring in hotel management. He joined the Group in 1995 and had held the positions of manager and deputy general manager of the sales department. Since his joining of the Group, he has been responsible for project planning, design and sales planning work of the Group, gaining extensive experience in property market. Mr. He was appointed as an executive director of the Company in February 2009 and is mainly responsible for the overall operation and management of the South-western China Region. Saved as disclosed above, Mr. He is also a director of various subsidiaries incorporated in the PRC.

Yu Yao Sheng, aged 49, is an executive director of the Company, a vice president and a general manager of the Eastern China Region of the Group. Mr. Yu joined the Group in January 2009 and is responsible for the overall operations and management of the Eastern China Region. Mr. Yu was appointed as an executive director of the Company in March 2010. Mr. Yu is a senior engineer and a grade-one national registered structural engineer. He has extensive experience in architectural design, engineering management, project management, regional development, administration and human resources management. Mr. Yu graduated from Hefei University of Technology with a bachelor's degree in architecture, and also holds a master's degree from China University of Mining and Technology. Prior to joining the Group, Mr. Yu was the head of architectural design institute, deputy director of urban construction commission and executive deputy commander-in-chief of the construction command office of National Development Zones, PRC.

Independent Non-Executive Directors

Lee Ka Sze, Carmelo, aged 50, is an independent non-executive director and a member of audit committee of the Company. Mr. Lee received a bachelor's degree in Laws and the Postgraduate Certificate in Laws from The University of Hong Kong. He is qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory and has been a partner of Messrs. Woo, Kwan, Lee & Lo since 1989. Mr. Lee is an independent non-executive director of Ping An Insurance (Group) Company of China Limited and a non-executive director of Y.T. Realty Group Limited, The Cross-Harbour (Holdings) Limited, China Pharmaceutical Group Limited, Hopewell Holdings Limited, Safety Godown Company Limited, Termbray Industries International (Holdings)

Limited and Yugang International Limited, all of which are listed on the Stock Exchange. Mr. Lee is a deputy chairman of the Listing Committee of the Stock Exchange. He is also an adjudicator of the Registration of Persons Tribunal and the chairman of the Transport Tribunal of the Hong Kong Government.

Dai Feng, aged 69, is an independent non-executive director, a member of audit committee and a member of remuneration committee of the Company. Mr. Dai is a member of the Expert Committee on Urban Planning of the Ministry of Construction (國家建設部城市規劃專家委員會), a member of the Expert Committee on Living Environment of the China Research Association on Property and Residence (中國房地產及住宅研究會人居環境委員會), and member of various other professional organizations on urban planning and research in the PRC. He is a part-time professor of Huazhong University of Science and Technology and Wuhan University of Technology and is also a fellow of the International Eurasian Academy of Sciences. Mr. Dai has over 41 years of experience in property development, specializing in urban planning, design and related information technology. Since 1985, he has won various prizes in urban planning and application of advanced technology. His achievements were highly recognized by the Ministry of Construction of China. Mr. Dai is an independent non-executive Director of Guangzhou R&F Properties Co. Ltd. which is listed on the Main Board of the Stock Exchange, and is also an independent non-executive Director of Poly Real Estate Group Co. Ltd. and Guangzhou Donghua Enterprises Co. Ltd., both of which are listed on the Shanghai Stock Exchange.

Tam Chun Fai, aged 48, is an independent non-executive director, chairman of audit committee and a member of remuneration committee of the Company. Mr. Tam graduated from The Hong Kong Polytechnic University with a bachelor's degree in accountancy. He is a member of the Hong Kong Institute of Certified Public Accountants and is also a member of Chartered Financial Analyst. Mr. Tam has over 21 years of experience in auditing and corporate advisory services as well as financial management and compliance work. He is an executive director, the chief financial officer and company secretary of Beijing Enterprises Holdings Limited, a company listed on the Main Board of the Stock Exchange and is an independent non-executive director of Hi Sun Technology (China) Limited, a company listed on the Main Board of the Stock Exchange.

Senior Management

Our senior management members are Kong Jian Min, Kong Jian Tao, Kong Jian Nan, Li Jian Ming, Tsui Kam Tim, He Wei Zhi and Yu Yao Sheng. See “— Executive Directors” for the description of their experience.

The table below sets forth certain information regarding our senior management members (excluding executive Directors):

<u>Name</u>	<u>Age</u>	<u>Position</u>
Luo Guo Qing	48	Vice president
Leung Kin, Kenneth	37	General Manager of business development
Law Siu Wo	48	Vice president of finance
Rao Jun	44	Vice president of human resources division
Chen Jie Ping	38	Director of the hotel and commerce division
Wu Yue Zhao	37	Director of the product research and development division
Luo Xiao Yun	43	Director of the legal affairs division and assistant to the Chairman
Lin Kai Ping	37	General Manager of Guangzhou Ningjun Property Management Limited under the Group

Luo Guo Qing, aged 48, is a vice president of the Group. He is responsible for the operations and management of the corporate strategy and brand marketing division of the Group. Mr. Luo holds a bachelor's degree in civil engineering from South China University of Technology, and a master's degree in business administration from Jinan University, and is a senior engineer in technical management. He has over 26 years of experience in the property industry and joined the Group in November 2008. Prior to joining the Group, Mr. Luo had held the positions of general manager and president at several large real estate development groups in the Southern China Region.

Leung Kin, Kenneth, aged 37, is a general manager of business development of the Group. Mr. Leung joined the Group in March 2009 and is responsible for strategy, corporate finance and business development of the Group. Mr. Leung graduated from the Wharton School of the University of Pennsylvania. Prior to joining the Group, Mr. Leung was an investment banker at Credit Suisse and Merrill Lynch.

Law Siu Wo, aged 48, is a vice president of finance of the Group. Mr. Law joined the Group in October 2008 and is responsible for the overall domestic and foreign financial budgets and analysis of the Group. He graduated from University of Wisconsin in the United States and holds a master's degree in business administration from University of California, Los Angeles. Mr. Law had worked for an international firm of certified public accountants for more than six years and another private equity fund for three years. He also had worked as financial controllers of several listed companies in Hong Kong and United States for more than 11 years. Mr. Law is a member of the American Institute of Certified Public Accountants and a member of Hong Kong Institute of Certified Public Accountants.

Rao Jun, aged 44, is a vice president of human resources division of the Group. Mr. Rao graduated from Zhongshan University majoring in philosophy. Mr. Rao joined the Group in June 2009 and is responsible for human resources and administration. Prior to joining to the Group, Mr. Rao worked in an internationally recognized U.S. enterprise. He has 21 years of extensive working experiences in human resources and management.

Chen Jie Ping, aged 38, is a director of the hotel and commerce division of the Group. Mr. Chen joined the Group in 2003 and had been responsible for the marketing and planning of the Group's projects. Currently, Mr. Chen is responsible for the planning and operations of hotel and commercial properties of the Group. Prior to joining the Group, Mr. Chen was a deputy general manager of a property agent and is experienced in the sale of properties in the PRC.

Wu Yue Zhao, aged 37, is a director of the product research and development division of the Group. He is responsible for the research, development and design of the products of the Group. Mr. Wu graduated from South China University of Technology with a master's degree in construction and is a registered planning professional. He joined the Group in 2006. Prior to joining the Group, Mr. Wu was the manager of the design department of several well-known property developers.

Luo Xiao Yun, aged 43, is a director of the legal affairs division of the Group and assistant to the Chairman. Ms. Luo joined the Group in November 2009 and is responsible for the overall operations and management of legal affairs. Ms. Luo graduated from Zhongshan University with a bachelor's degree in laws and subsequently was admitted to practise in the PRC as a qualified solicitor. Ms. Luo is a practising solicitor with extensive working experience in financial investment, corporate law and civil and commercial law. Prior to joining the Group, Ms. Luo began her legal career at the Foreign Economic and Trade Cooperation Committee and was a solicitor in other law firms.

Lin Kai Ping, aged 37, is a general manager of Guangzhou Ningjun Property Management Limited. Ms. Lin joined the Group in April 2004 and is responsible for the overall property management of the Southern China Region. Ms. Lin graduated from the University of International Business and Economics majoring in administration management. Prior to joining to the Group, Ms. Lin worked in a world's leading British property management company. She has 18 years of extensive working experiences in property management.

Company Secretary

Tsui Kam Tim. See “— Executive Directors” for the description of Mr. Tsui's experience.

Directors' Remuneration

The directors' emoluments are subject to the recommendations of the remuneration committee and the Board's approval. The emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of our Group.

During 2008, 2009 and 2010, the aggregate amount of remuneration paid by us to our directors was RMB6.8 million, RMB9.1 million and RMB19.0 million (US\$2.9 million), respectively.

Board Committees

Audit Committee

The audit committee comprises three members who are independent non-executive directors, namely Mr. Tam Chun Fai (the chairman), Mr. Lee Ka Sze Carmelo and Mr. Dai Feng. The audit committee reports to the Board and is delegated by the Board to assess matters related to the financial statements of accounts. Under its terms of reference, the audit committee is required to perform, amongst the others, the following duties:

- making recommendation to the Board on appointment, re-appointment and removal of external auditor of the Group and considering the remuneration and terms of engagement of that external auditor;
- reviewing and monitoring the external auditor's independence and effectiveness of the audit process in accordance with applicable standard;
- reviewing the Group's financial controls, internal control and risk management system;
- reviewing the Group's financial and accounting policies and practices;
- ensuring that management has fulfilled its duty to establish and maintain an effective internal control and risk management systems;
- ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedures approved by the Board;
- reviewing and monitoring the integrity of the Group's financial statements and annual reports and accounts and half-year report.

The audit committee held two meetings during the year and all minutes were kept by the company secretary. The audit committee has reviewed the accounting policies and practices adopted by the Group as well as assessed the effectiveness of the Group's internal control and risk management system. The audit committee reported that there was no material uncertainty that cast doubt on the Company's going concern ability.

Remuneration Committee

The principal responsibilities of the remuneration committee include formulation and making recommendations on remuneration policy and remuneration package of the directors and members of senior management to the Board. The remuneration committee comprises an executive director, namely Mr. Kong Jian Min, and two independent non-executive directors, namely Mr. Tam Chun Fai and Mr. Dai Feng. Mr. Kong Jian Min is the chairman of the remuneration committee.

The Board expects the remuneration committee to exercise independent judgment and ensures that executive directors do not participate in the determination of their own remuneration.

Although the remuneration committee did not hold any committee meeting for the year ended December 31, 2010, members of the remuneration committee have reviewed the remuneration package of the directors and the remuneration policies of the Company, which are determined with reference to prevailing market practices.

Nomination Committee

The nomination committee was established on June 11, 2007. The nomination committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships. The nomination committee comprises an executive director, namely Mr. Kong Jian Min, and two independent non-executive directors, namely Mr. Tam Chun Fai and Mr. Dai Feng. Mr. Kong Jian Min is the chairman of the nomination committee.

During the year ended December 31, 2010, although no meeting was held by the nomination committee, members of the nomination committee have reviewed the composition of the Board which is determined by directors' skills and experience appropriate to the Company's business.

Share Option Scheme

Our share option scheme (the "Scheme") was adopted pursuant to the shareholders' resolution passed on June 11, 2007. See note 33 to the financial statements starting on page F-1 of this offering memorandum.

During the year ended December 31, 2010, we announced that we offered to grant 8,000,000 share options to certain of our employees on March 30, 2010. Details of the share options granted pursuant to the Scheme were as follows:

Name of grantee	Number of share options granted as at January 1, 2010	Number of share options granted during the year ended December 31, 2010 ⁽¹⁾	Number of options outstanding at the end of the year	Date of grant	Period during which share options are exercisable ⁽²⁾	Exercise price per share
					(HK\$)	
Li Jian Ming	619,000	—	619,000	December 18, 2009	December 18, 2010 – December 17, 2014	6.24
He Wei Zhi	619,000	—	619,000	December 18, 2009	December 18, 2010 – December 17, 2014	6.24
Tsui Kam Tim	619,000	—	619,000	December 18, 2009	December 18, 2010 – December 17, 2014	6.24
Yu Yao Sheng	619,000	—	619,000	December 18, 2009	December 18, 2010 – December 17, 2014	6.24
Tam Chung Fai . . .	30,000	—	30,000	December 18, 2009	December 18, 2009 – December 17, 2014	6.24
Lee Ka Sze, Carmelo	30,000	—	30,000	December 18, 2009	December 18, 2009 – December 17, 2014	6.24
Dai Feng	30,000	—	30,000	December 18, 2009	December 18, 2009 – December 17, 2014	6.24
Other employees of the Group ⁽³⁾	5,891,000	—	5,891,000	December 18, 2009	December 18, 2010 – December 17, 2014	6.24
Other employees of the Group ⁽³⁾	—	8,000,000	8,000,000	March 30, 2010	March 30, 2010 – March 29, 2015	5.67

Note:

1. The vesting period of the share option is from the date of grant until the announcement of the exercise period.
2. Details of the exercise period of the share option are set out in note 33 to the financial statements starting on page F-1 of this offering memorandum.
3. Presented separately based on different vesting periods of the share options.

During the year ended December 31, 2010, no share options were exercised, cancelled or lapsed.

SUBSTANTIAL SHAREHOLDERS

As of December 31, 2010, the following persons beneficially owned more than 5% of our outstanding shares and underlying shares, as recorded in the register maintained by us pursuant to Section 336 of the Securities and Futures Ordinance of the Laws of Hong Kong.

Name of shareholder	Capacity	Number of ordinary shares ⁽¹⁾	Percentage of issued share capital
Kong Jian Min ⁽²⁾⁽³⁾⁽⁴⁾	Interest of controlled corporations	1,714,441,500 ⁽⁵⁾	59.26%
	Beneficial owner	4,067,000	0.14%
Kong Jian Tao ⁽²⁾⁽³⁾	Interest of controlled corporations	1,687,500,000 ⁽⁶⁾	58.33%
	Beneficial owner	1,000,000	0.035%
Kong Jian Nan ⁽²⁾⁽³⁾	Interest of controlled corporations	1,687,500,000 ⁽⁷⁾	58.33%
Plus Earn Consultants Limited ⁽²⁾	Beneficial owner	1,612,500,000	55.74%
JPMorgan Chase & Co.	Interest of controlled corporations	172,867,981	5.98%
		122,222,981 ⁽⁸⁾	4.22%

Notes:

- (1) Share(s) of HK\$0.10 each in the capital of the Company.
- (2) Plus Earn Consultants Limited (“Plus Earn”) held 1,612,500,000 shares as of December 31, 2010 and was legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15.0% by Kong Jian Tao and as to 8.5% by Kong Jian Nan, each being an executive director of the Company.
- (3) Right Rich Consultants Limited (“Right Rich”) held 75,000,000 shares as of December 31, 2010 and was legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15.0% by Kong Jian Tao and as to 8.5% by Kong Jian Nan.
- (4) Hero Fine Group Limited (“Hero Fine”) held 26,941,500 shares as of December 31, 2010 and was legally and beneficially owned as to 100.0% by Kong Jian Min.
- (5) Of the 1,714,441,500 shares held, 1,612,500,000 shares were held by Plus Earn, 75,000,000 shares were held by Rich Right and 26,941,500 shares were held by Hero Fine.
- (6) Of the 1,687,500,000 shares held, 1,612,500,000 shares were held by Plus Earn and 75,000,000 shares were held by Rich Right.
- (7) Of the 1,687,500,000 shares held, 1,612,500,000 shares were held by Plus Earn and 75,000,000 shares were held by Rich Right.
- (8) The shares are held in the position of lending pool.

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. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

As a listed company on The Stock Exchange of Hong Kong Limited, we are subject to the requirements of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) which require certain “connected transactions” with “connected persons” be approved by a company’s independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

Major Related Party Transactions

The table below sets forth our related party transactions for the periods indicated.

	For year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	(US\$)
	(in thousands)			
Compensation paid to key management personnel				
Short term employee benefits	12,305	16,581	26,201	3,970
Equity-settled share option expenses	—	685	6,569	995
Post-employment benefits	483	406	850	129
Total	12,788	17,672	33,620	5,094

Guarantee Granted to a Related Party

As of December 31, 2010, the Group had provided guarantees in respect of a bank loan to the extent of RMB460.0 million (US\$69.7 million) for an associate and a jointly-controlled entity. As of December 31, 2010, we had also provided guarantees of RMB900.0 million (US\$136.4 million) in respect of a trust financing arrangement for a jointly-controlled entity.

DESCRIPTION OF MATERIAL INDEBTEDNESS AND OTHER OBLIGATIONS

To fund our existing property projects and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks or trust companies. As of December 31, 2010, our total bank loans amounted to RMB10,713.3 million (US\$1,623.2 million). As of December 31, 2010, we had a total amount of the equivalent of RMB1,618.3 million (US\$245.2 million) of senior notes outstanding from the issuance of our 2010 Notes. We set forth below a summary of the material terms and conditions of these loans, indebtedness and other obligations.

Project Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including primarily Bank of China, Guangzhou Rural Commercial Bank, China Construction Bank, Agricultural Bank of China, Industrial and Commercial Bank of China, Chinese Mercantile Bank, Standard Chartered Bank, China Minsheng Banking Corp., Ltd., Guangdong Development Bank and Shanghai Pudong Development Bank. These loans typically are project loans to finance the construction or the operation of investment properties of our projects (the “project loans”) and terms ranging from one to 10 years, which generally correspond to the construction periods or the operation of investment properties of the particular projects. Certain of our PRC project loans require prepayment of the loan if a certain percentage of GFA of the relevant project has been sold.

Interest

The principal amounts outstanding under the project loans generally bear interest at floating rates calculated by reference to the relevant bank’s benchmark interest rate *per annum*. Floating interest rates generally are subject to review by the banks annually. Interest payments generally are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement.

Covenants

Under these project loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first notifying the lender and/or obtaining the lenders’ prior consent:

- create encumbrances on any part of their properties or assets or deal with their assets in a way that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties with the assets funded by the loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations or change the company’s status, such as liquidation and dissolution;
- alter the nature or scope of their business operations in any material respect;
- incur additional debts;
- reduce their registered capital;
- transfer part or all of the liabilities under the loans to a third party; and

- prepay the loan.

Dividend Restriction

Pursuant to the project loans with Bank of China, Industrial and Commercial Bank of China and Guangdong Development Bank, some of our PRC subsidiaries also agreed not to distribute any dividends:

- if the borrowers' after-tax net profit is nil or negative or insufficient to cover losses from the previous accounting periods; or
- if the borrower's profit before tax in the relevant accounting period has not been used to pay off the principal, interest or other related expenses due in that accounting period or is insufficient to cover the principal, interest or other related expenses due in next period.

Guarantee and Security

Certain of our PRC subsidiaries and associates have entered into guarantee or security agreements with the PRC banks in connection with some of the project loans pursuant to which these subsidiaries and associates have guaranteed or provided security including property mortgage and share pledge for all liabilities of the subsidiary borrowers under these project loans. We also act as a guarantor in relation to certain of these project loans.

Acquisition Financing

CCB Dongshan 2010 Loan

On March 18, 2010, our PRC subsidiary, Guangzhou Tianjian Real Estate Development Co., Ltd. ("Guangzhou Tianjian") signed a loan agreement with China Construction Bank, Guangzhou Dongshan Branch ("CCB Dongshan") to finance the acquisition of Guangzhou Lihe, which holds the Zengcheng Summit project. The loan is a RMB denominated term loan facility with an aggregate principal amount of up to RMB1.16 billion (the "CCB Dongshan 2010 Loan"). The term of the loan is five years. As of December 31, 2010, RMB1.16 billion (US\$175.7 million) in principal amount was outstanding under this facility.

Interest

The CCB Dongshan 2010 Loan bears interest at the PBOC benchmark lending interest rate *per annum* payable on the 12th of each month for an interest period. In the event that the CCB Dongshan 2010 Loan is not used for the designated purpose of the loan, the penalty interest is calculated at an upward floating rate of 100% from the PBOC benchmark lending interest rate *per annum*. Any interest on the overdue amount under the CCB Dongshan 2010 Loan is calculated at an upward floating rate of 50% from the PBOC benchmark lending interest rate *per annum*.

Covenants

Pursuant to the CCB Dongshan 2010 Loan, Guangzhou Tianjian agreed, among other things:

- to not create encumbrances on any part of their properties or assets or deal with their assets in a way that may adversely affect their ability to repay their loans;

- to not grant guarantees to any third parties that may adversely affect their ability to repay their loans;
- to not alter the nature or scope of their business operations in any material respect;
- to not transfer part or all of the liabilities under the loans to a third party; and
- to use the CCB Dongshan 2010 Loan is solely for the purpose of acquiring the entire equity interest in the target project company including its business operations and financial and cash positions.

Events of default

The CCB Dongshan 2010 Loan contains certain customary events of default, including nonpayment of principal or interest, insolvency and breaches of the terms of the CCB Dongshan 2010 Loan. If an event of default has occurred, CCB Dongshan may, without prior notice to the Company demand immediate payment or repayment of all amounts outstanding including all interest accrued thereon. In addition, if, for any reason, the CCB Dongshan is of the view that certain conditions exist that may endanger CCB Dongshan's claims under the contract such as substantial change in the nature of the invested project and/or the target acquisition company's business, the dividend policy of the target acquisition company, CCB Dongshan may, with five business days of written notice, immediately take the necessary relief measures such as demand immediate payment or repayment of all amounts outstanding.

Term loans

ICBC 2006 Loan

On December 20, 2006, we signed a loan agreement with the Industrial and Commercial Bank of China (Asia) Limited ("ICBC") as supplemented by the supplemental loan agreement, the second supplemental loan agreement and the third supplemental loan agreement dated December 28, 2006, January 12, 2007 and May 6, 2008, respectively. The loan facility is a Hong Kong dollar denominated term loan facility with an aggregate principal amount of up to HK\$500 million for Guangzhou Xinhengchang Enterprise Development Co., Ltd. ("Guangzhou Xinhengchang") and an aggregate principal amount of up to HK\$500 million for Guangzhou Hejing Real Estate Development Co., Ltd. ("Guangzhou Hejing") (the "ICBC 2006 Loan") both of which are wholly-owned subsidiaries incorporated in the PRC. As of December 31, 2010, HK\$562.3 million (US\$72.1 million) in principal amount was outstanding under this facility.

The ICBC 2006 Loan has a final maturity date of March 31, 2014. We may prepay on any interest payment date under the loan agreement for the ICBC 2006 Loan on the amount prepaid subject to five business days' prior written notice of prepayment to ICBC, specifying the amount to be prepaid and the date of such prepayment.

Guarantee and Security

We have agreed to guarantee the ICBC 2006 Loan.

The ICBC 2006 Loan is secured by the proceeds of certain all-risks insurance and construction contract of International Finance Place, approximately half of International Finance Place (the "Mortgaged Property") and the dividend accounts of Kong Jian Min, Kong Jian Tao and Kong Jian Nan, our executive directors.

Interest

The ICBC 2006 Loan bears interest at the rate of 1.25% *per annum* over HIBOR on the first day of each interest period for an interest period, which shall be one month. Any overdue amount under the ICBC 2006 Loan will be subject to a penalty interest accruing from the due date up to the date of actual payment at a rate of 2.0% *per annum* over the applicable interest rates on the ICBC 2006 Loan.

Covenants

We have agreed to maintain the ratio of the loan outstanding under this loan agreement to the valuation of the Mortgaged Property to be below 50% at all times.

We have further agreed that, if the Mortgaged Property is encumbered by third party interests, we will not, subject to certain exceptions:

- create security or dispose of any assets;
- borrow moneys, make loans or give any guarantee;
- enter into any contract relating to the sale, license and/or management of the Mortgaged Property; and
- make any non-ordinary course investments.

Events of Default

The ICBC 2006 Loan contains certain customary events of default, including nonpayment of principal or interest, cross default, insolvency and breaches of the terms of the ICBC 2006 Loan. If an event of default has occurred, ICBC may, without prior notice to the Company demand immediate payment or repayment of all amounts outstanding including all interest accrued thereon.

Consent

On July 29, 2010, we obtained a letter from ICBC that consents to the offering of the 2010 Notes and related aspects of it. On January 18, 2011, we obtained a letter from ICBC that consents to the offering of the Notes and related aspects of it.

ICBC 2008 Loan

On July 30, 2008, we signed a term loan agreement with ICBC. The loan facility is a Hong Kong dollar denominated term loan facility with an aggregate principal amount of up to HK\$250 million (the "ICBC 2008 Loan"). As of December 31, 2010, HK\$112.5 million (US\$14.5 million) in principal amount was outstanding under this facility.

The ICBC 2008 Loan will mature on July 30, 2011. We cannot prepay the ICBC 2008 Loan without prior consent of ICBC and 10 business days' prior written notice of prepayment to ICBC.

Guarantee and Security

We have agreed to guarantee the ICBC 2008 Loan.

The ICBC 2008 Loan is secured by the capital stock of, and all assets owned by, Champ Joyment Limited, one of our wholly-owned subsidiaries incorporated in Hong Kong, and secured by the capital stock of our PRC subsidiary Guangzhou Conghua Hejing Real Estate Development Limited. Champ Joyment Limited is a Non-Subsidiary Guarantor.

Interest

The ICBC 2008 Loan bears interest at the rate of 3.5% *per annum* over HIBOR payable on the last business day of each interest period for an interest period, which is a period of three months, commencing from the date of the first advance made. Any interest on overdue amount under the ICBC 2008 Loan is calculated at a rate of 2.0% *per annum* on the basis of the actual number of days elapsed and a 365-day year compounded monthly.

Covenants

Pursuant to the ICBC 2008 Loan, we agreed to the following financial covenants:

- our net worth¹ will not be less than RMB8.5 billion; and
- our net gearing ratio² will not be more than 60%, as confirmed by ICBC in writing on July 22, 2010.

We have further agreed, among other things that all pre-sale and sale proceeds of the Conghua Project will be deposited into an ICBC Guangzhou controlled account.

Events of Default

The ICBC 2008 Loan contains certain customary events of default, including nonpayment of principal or interest, cross default, insolvency and breaches of the terms of the ICBC 2008 Loan. If an event of default has occurred, ICBC may, without prior notice to the Company demand immediate payment or repayment of all amounts outstanding including all interest accrued thereon.

Consent

On July 29, 2010, we obtained a letter from ICBC that consents to the offering and all related aspects of it. On January 18, 2011, we obtained a letter from ICBC that consents to the offering of the Notes and related aspects of it.

SCB 2009 Facility

On April 27, 2009, we signed a loan agreement with SCB. The loan facility is an unsecured Hong Kong dollar denominated term loan facility with an aggregate principal amount of up to HK\$300 million (the “SCB 2009 Facility”). The SCB 2009 Facility is also guaranteed by Fancy

¹ “Net worth” under the ICBC 2008 Loan represents the amount paid up or credited as paid up on the issued share capital and the amounts standing to the credit of the consolidated capital and revenue reserves as shown in our latest audited consolidated balance sheet, net any declared dividend or other distributions to our shareholders to the extent that such dividend or other distribution is not provided for in such audited consolidated balance sheet and any debits balance on profit and loss account.

² “Net gearing ratio” under the ICBC 2008 Loan represents the total interest bearing borrowings net of cash and cash equivalent and restricted cash over our net worth.

Think Investments Limited (“Fancy Think”) and Oak Plus Investments Limited (“Oak Plus”). As of December 31, 2010, HK\$300 million (US\$38.6 million) in principal amount was outstanding under this facility.

The SCB 2009 Facility will mature on April 27, 2012. We cannot prepay the SCB 2009 Facility without giving 14 days’ prior written notice of prepayment to SCB, specifying the amount to be prepaid and the date of such prepayment.

Interest

The SCB 2009 Facility bears interest at the rate of 3.0% *per annum* over HIBOR on the first day of each interest period for an interest period, which may be one, two or three months as selected by us. Any overdue amount under the SCB 2009 Facility will be subject to default interest at the rate of 2.0% *per annum*.

Covenants

Pursuant to the SCB 2009 Facility, we agreed to the following financial covenants:

- our consolidated tangible net worth¹ will not be less than HK\$8.3 billion;
- our ratio of consolidated net borrowings² to consolidated tangible net worth (deducting amount attributable to minority interests) will not exceed 0.75:1; and
- our ratio of consolidated EBITDA³ to consolidated interest expense⁴ will not be less than 6.0:1.

We have further agreed, among other things that:

¹ *Consolidated tangible net worth, as defined in the SCB 2009 Facility, means, the aggregate of the paid up or credited as paid up issued share capital of the Group and the amounts standing to the credit of our consolidated distributable and non-distributable reserves as shown on our consolidated financial statements after deducting any amounts attributable to intangible assets, a sum equal to the amounts by which the book value of any of its assets are written up, any amount distributed or proposed to be distributed to persons out of profits accrued on or before date of financial statements and any adjustments reflecting any variation in the amount of paid-up capital, amounts standing to the credit of such reserves or adjustments considered appropriate by external auditors.*

² *Consolidated net borrowings, as defined in the SCB 2009 Facility, means the aggregate of all the liabilities in respect of our indebtedness from any bank or other financial institution determined on a consolidated basis deducting the aggregate amount of cash at hand held by the members of the Group except any such cash subject to security.*

³ *“Consolidated EBITDA”, as defined in the SCB 2009 Facility, means our consolidated operating profits of the Group for the relevant period before taxation: (a) before deducting any consolidated interest expenses; (b) before taking into account any items treated as exception or extraordinary items; (c) before deducting any amount attributable to amortization of goodwill or depreciation of tangible assets; and (d) after deducting the amount of any profit of any member of the Group which is attributable to minority interest.*

⁴ *“Consolidated interest expense”, as defined in the SCB 2009 Facility, means the aggregate amount of interest, commission, fees, discounts, prepayment penalties or premiums and other finance payments in respect of consolidated total borrowings whether accrued, paid or payable (but excluding those interest capitalized) by any member of our Group in respect of the twelve months ending on the last day of the Borrower’s financial year and each period of six months ending on the last day of the first half of the Borrower’s financial year excluding any such obligation owed to any other members of our Group, including the interest element of leasing and hire purchase payments, including any amounts paid, payable or accrued by any member of our Group to counterparties under any interest rate hedging instrument and deducting any amounts paid, payable or accrued by counterparties to any member of our Group under any interest rate hedging instrument.*

- if the aggregate net worth of Fancy Think and Oak Plus is less than 75% of the consolidated tangible net worth of the Group minus the net worth of Issuer, an additional offshore subsidiary will be required to guarantee the SCB 2009 Facility; and
- no encumbrance will be created over any asset of the Group, subject to certain exceptions.

Events of Default

The SCB 2009 Facility contains certain customary events of default, including nonpayment of principal or interest, cross default, insolvency and breaches of the terms of the SCB 2009 Facility. If an event of default has occurred, SCB may, without prior notice to the Company demand immediate payment or repayment of all amounts outstanding including all interest accrued thereon.

Consent

On July 29, 2010, we obtained a letter from SCB that consents to the offering of the 2010 Notes and related aspects of it. On February 15, 2011, we obtained a letter from SCB that consents to the offering of the Notes and related aspects of it.

ICBC 2010 Loan

On July 29, 2010, we signed a term loan agreement with ICBC. The loan facility is a Hong Kong dollar denominated term loan facility with an aggregate principal amount of up to HK\$500 million (the “ICBC 2010 Loan”). The ICBC 2010 Loan has a one lump sum drawdown within 30 days from July 29, 2010. As of the date of this offering memorandum, the ICBC 2010 Loan had been drawn down in full.

The ICBC 2010 Loan will mature on July 29, 2013. We cannot prepay the ICBC 2010 Loan without prior consent of ICBC and 10 business days’ prior written notice of prepayment to ICBC, specifying the amount to be prepaid and the date of such prepayment.

Guarantee and Security

We, Oak Plus and Rich Come Enterprises Limited (“Rich Come”), our wholly-owned subsidiaries, have agreed to guarantee the ICBC 2010 Loan.

The ICBC 2010 Loan is secured by the capital stock of, and all assets owned by, Beauty Sight Investments Limited (“Beauty Sight”) and Rich Come, the capital stock of our PRC subsidiary Hainan New World Property Development (HK) Limited, certain properties located in Hainan and the receivables of a loan owed by Rich Come to Beauty Sight. Beauty Sight and Rich Come are Non-Subsidiary Guarantors.

Interest

The ICBC 2010 Loan bears interest at the rate of 4% *per annum* over HIBOR payable on the last business day of each interest period for an interest period, which is a period of one, or two or three months, commencing from the date of the first advance made. Any interest on overdue amount under the ICBC 2010 Loan is calculated at a rate of 2.0% *per annum* on the basis of the actual number of days elapsed and a 365-day year compounded monthly.

Covenants

Pursuant to the ICBC 2010 Loan, we agreed to the following financial covenants:

- our net worth¹ will not be less than RMB8,500 million; and
- our net gearing ratio² will not be more than 60%.

We have further agreed, among other things that all pre-sale and sale proceeds of any part of the Hainan Lingshui Project shall be deposited into an ICBC designated and controlled account and no amount can be withdrawn without the prior consent of ICBC.

Events of Default

The ICBC 2008 Loan contains certain customary events of default, including nonpayment of principal or interest, cross default, insolvency and breaches of the terms of the ICBC 2010 Loan. If an event of default has occurred, ICBC may, without prior notice to the Company demand immediate payment or repayment of all amounts outstanding including all interest accrued thereon.

Consent

On July 29, 2010, we obtained a letter from ICBC that consents to the offering of the 2010 Notes and all related aspects of it. On January 18, 2011, we obtained a letter from ICBC that consents to the offering of the Notes and related aspects of it.

Trust Financing Arrangements

Suzhou Trust Financing

In December 2009, China Construction Bank Corporation — Suzhou Branch (“CCB Suzhou”), as settler and beneficiary, and Jiangxi International Trust Co., Ltd. (“Jiangxi International”) entered into a trust agreement to set up a trust in the amount of RMB901 million, comprising 900 million senior trust units (“Senior Units”) and 1 million junior trust units (“Junior Units”). The Senior Units were open for subscription by the public and the Junior Units were subscribed by Suzhou Hejing Real Estate Development Co., Ltd. (“Suzhou Hejing”), one of our wholly-owned subsidiaries in the PRC.

The fund raised under the trust was for the purpose of increasing the registered capital of Suzhou Kaiyu Real Estate Development Company Limited (“Suzhou Kaiyu”), which is engaged in the development of Suzhou Apex project, from RMB400 million to RMB1,500 million. Subsequent to such capital increase, Suzhou Kaiyu is owned 60.06% by Jiangxi International, 29.94% by Suzhou Hejing and 10% by Suzhou Jinzhu Property Development Co., Ltd., an independent third party. The term of the trust is 18 months, subject to early termination by Jiangxi International upon the occurrence of certain events. Early redemption of the Senior Units or Junior Units is not allowed.

¹ “Net worth” under the ICBC 2010 Loan represents the amount paid up or credited as paid up on the issued share capital and the amounts standing to the credit of the consolidated capital and revenue reserves as shown in our latest audited consolidated balance sheet. Net any declared dividend or other distributions to our Shareholders to the extent that such dividend or other distribution is not provided for in such audited consolidated balance sheet and any debits balance on profit and loss account.

² “Net gearing ratio” under the ICBC 2010 Loan represents our total borrowings (whether interest bearing or not) net of cash and cash equivalent and restricted cash over our net worth.

In connection with the trust financing, Suzhou Hejing and CCB Suzhou also entered into an option agreement, according to which Suzhou Hejing may acquire all Senior Units from CCB Suzhou at a consideration equivalent to an amount equal to the number of Senior Units X (1 + 11.5%) X number of investment days in the Senior Units divided by 360 (the “Consideration”) on December 24, 2010, unless a material adverse event occurs, in which case such acquisition will be made at the request of CCB Suzhou (the “Put Option”).

The Put Option is secured by Suzhou Hejing’s equity interests in Suzhou Kaiyu Guangzhou Hejing, and we also agreed to guarantee the obligations under the option agreement.

All the proceeds of the trust were deposited to the custodian bank account maintained with and managed by CCB Suzhou.

Guangzhou Trust Financing

In January 2010, Guangzhou Hejing entered into a series of agreements with Citic Trust Limited Company (“Citic Trustee”) to set up a trust financing arrangement for the purpose of increasing the registered capital of Guangzhou Wanhui Real Estate Development Limited (“Wanhui”), which is engaged in the development of the D3-4 project in Guangzhou. The term of the trust financing arrangement is 18 months.

The trust consists of three series: 300 million of senior units that were open to the public for subscription (“Senior Units”), 30 million of series 1 junior units (“S1 Units”) and 135 million of series 2 junior units (“S2 Units”), each at RMB1 per unit.

The Senior Units were fully subscribed by the public. Citic Trustee used the proceeds of RMB300 million to invest in Wanhui. At the same time, Guangzhou Hejing agreed to entrust its 100% equity interest in Wanhui to Citic Trustee in exchange for the S1 Units. As a result, Citic Trustee owns 100% of Wanhui. Guangzhou Hejing also agreed to entrust its creditor’s rights to a RMB135 million shareholder loan owing from Wanhui to Citic Trustee in exchange for S2 Units.

The target annual yield of the Senior Units is 6.5% for investors who subscribed for 3 million units or more and 5.8% for investors who subscribed for less than 3 million units. The target earning for the Senior Units is equal to the principal amount of Senior Units X target annual yield X actual days accumulated divided by 365. In addition, Guangzhou Hejing is required to compensate Citic Trustee on an annual basis in an amount equivalent to the result of the principal amount of the Senior Units X 1.1% X actual days accumulated divided by 365.

In connection with the trust financing, we have granted Citic Trustee a) a put option to require us to purchase from it 100% of the equity interest in Wanhui; and b) a right to transfer its equity interest in Wanhui to a third party; we also have a call option to require Citic Trustee to sell to us its 100% equity interest in Wanhui.

Guangzhou Hejing’s obligations under the trust financing are guaranteed by us and secured by 94.5% of the equity interest in Guangzhou Liangyu Investment Co., Ltd., one of our subsidiaries.

Shanghai Pudong Trust Financing

On September 29, 2010, Guangzhou City Wanjing Property Development Co., Ltd. (“Guangzhou City Wanjing”), Shanghai Hejing, New China Trust Co., Ltd. (“Xinhua Trust”) and Guangzhou Hejing Real Estate Development Co., Ltd. (“Guangzhou Hejing”) entered into a trust financing agreement (“trust agreement”). According to the trust agreement, Xinhua Trust shall

gather public funding of RMB650.0 million and the term of the trust will be for 1.5 years. The fund will be used as capital contribution for Guangzhou City Wanjing, after which, Xinhua Trust will hold 95.59% equity interest in Guangzhou City Wanjing and Guangzhou Hejing will own the remaining 4.41% equity interest. Without the consent of Xinhua Trust, Guangzhou Hejing may not transfer its interest in the project company to third parties. Guangzhou City Wanjing will use the RMB650.0 million contribution from Xinhua Trust to contribute further into the project company which is developing the Shanghai Pudong Project, namely Shanghai Jingdong Property Development Co., Ltd. At the same time, Shanghai Hejing will contribute an equal amount to the registered capital of the project company, the registered capital of which will reach RMB1,350.0 million. Guangzhou City Wanjing and Shanghai Hejing will each hold 50% equity interest in the project company. Shanghai Hejing will pledge its 50% equity interest in the project company to Xinhua Trust. Xinhua Trust will assign a director to each of Guangzhou City Wanjing and the project company, who will have one veto vote on certain material matters, such as business plans and disposal of material fixed assets.

According to the trust agreement, before the expiry or upon early termination of the trust arrangement, Guangzhou Hejing, Shanghai Hejing or Guangzhou City Wanjing has the right to demand Xinhua Trust to withdraw trust finances by the following means: (1) through obtaining dividends from Guangzhou City Wanjing or through capital reduction methods; (2) transfer the beneficial interest in the trust to Guangzhou Hejing or its designated third party; or (3) transfer equity interest in Guangzhou City Wanjing to Guangzhou Hejing or its designated third party. Xinhua Trust will distribute principal and interests from the proceeds received. If Xinhua Trust obtains principal and interests via the first two methods, Xinhua Trust shall transfer the remaining trust assets to Guangzhou Hejing or its designated third party at no cost (including the shareholding of Guangzhou City Wanjing).

On September 29, 2010, Shanghai Hejing, Guangzhou City Wanjing and the project company entered into a capital increase agreement, under which Guangzhou City Wanjing and Shanghai Hejing will each contribute RMB650.0 million to the project company. Each of Guangzhou City Wanjing and Shanghai Hejing owns 50% equity interest in the project company.

On September 29, 2010, Guangzhou Hejing, Xinhua Trust and Guangzhou City Wanjing entered into a capital increase agreement, under which Xinhua Trust will contribute RMB650.0 million into Guangzhou City Wanjing. As a result, Xinhua Trust owns 95.59% of the equity interest in Guangzhou City Wanjing and Guangzhou Hejing owns the remaining 4.41% equity interest.

On September 29, 2010, Shanghai Hejing and Xinhua Trust entered into two share pledge agreements according to which, Shanghai Hejing's 50% equity interest in the project company are pledged to Xinhua Trust to guarantee the obligations of Guangzhou City Wanjing, Shanghai Hejing and Guangzhou Hejing under the trust agreement. Without the consent of Xinhua Trust, the project company cannot issue cash dividends to Shanghai Hejing.

2010 Notes

On August 18, 2010, we entered into an indenture pursuant to which we issued an aggregate principal amount of US\$250,000,000 12.50% senior notes due 2017. The 2010 Notes are listed on the SGX-ST.

As of December 31, 2010, we had a total amount of the equivalent of RMB1,618.3 million (US\$245.2 million) of senior notes outstanding from the issuance of our 2010 Notes.

Guarantee

The obligations pursuant to the 2010 Notes are guaranteed by our existing subsidiaries (the “2010 Subsidiary Guarantors”) other than those organized under the laws of the PRC and certain other subsidiaries specified in the indenture governing the 2010 Notes. We refer to these guarantees as the 2010 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a 2010 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (a “2010 JV Subsidiary Guarantee”). We refer to the subsidiaries providing a 2010 JV Subsidiary Guarantee as 2010 JV Subsidiary Guarantors.

Each of the 2010 Subsidiary Guarantors, jointly and severally, guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2010 Notes.

Collateral

In order to secure the obligations under the 2010 Notes, the Company agreed, for the benefit of the holders of the Notes, to pledge, or cause the initial 2010 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each initial 2010 Subsidiary Guarantor, other than Market Network Limited (collectively, the “2010 Collateral”) in order to secure the obligations of the Company under the Notes and each initial 2010 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The 2010 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the 2010 Collateral will be shared on a *pari passu* basis by the holders of the 2010 Notes and the holders of other secured indebtedness, including the lender under the SCB 2009 Facility, and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness.

Interest

The 2010 Notes bear an interest rate of 12.50% *per annum*. Interest is payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2010 Indenture and each of the related 2010 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred shares;
- declaring dividends on capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- engaging in any business other than permitted business;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay;
- dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The indenture governing the 2010 Notes contains certain customary events of default, including default in the payment of principal or of any premium on the 2010 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default substantially similar to the events of default under the Indenture. If an event of default occurs and is continuing, the trustee under the indenture governing the 2010 Notes or the holders of at least 25% of the outstanding 2010 Notes may declare the principal of the 2010 Notes plus a premium (if any), and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the principal of, premium (if any), and accrued and unpaid interest on the outstanding 2010 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding 2010 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

Maturity and Redemption

The maturity of the 2010 Notes is August 18, 2017. At any time and from time to time, we may, with the proceeds from sales of certain types of the Company's shares, redeem up to 35% of the aggregate principal amount of the 2010 Notes at a redemption price equal to 112.50% of the principal amount of the 2010 Notes, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 65% of the aggregate principal amount of the 2010 Notes originally issued remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

Additionally, if we or an initial 2010 Subsidiary Guarantor under the indenture governing the 2010 Notes would become obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax law, we may redeem the 2010 Notes at a redemption price equal to 100% of the principal amount of the 2010 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

Recent Material Indebtedness

SCB 2011 Facility

On February 9, 2011, we signed a loan agreement with SCB. The loan facility is a secured and guaranteed Hong Kong dollar denominated term loan facility with an aggregate principal amount of up to HK\$195 million (the "SCB 2011 Facility"). The loan facility is secured by security created pursuant to the 2010 Collateral, with the exception of the capital stock of Power Place Enterprises Limited, and any other security document that may at any time be given as security for any of the liabilities pursuant to or in connection with the indenture governing the 2010 Notes. The SCB 2011 Facility is guaranteed by our subsidiaries Act Power International Limited, Able Talent International Limited, Boom Faith International Limited, Cheerful Hill Group Limited, Extreme Beauty Enterprises Limited, Faith Beauty International Limited, Fame Rich Group Limited, Fast Choice Group Limited, Good Excel Enterprises Limited, Happy Clear Consultants Limited, High Insight Enterprises Limited, High Ascent, Hugeluck Investments Limited, Noble Wit Enterprises Limited, Now Rich Holdings Limited, Pine Billion Enterprises Limited, Reach Luck Consultants Limited, Rising Wave Enterprises Limited, Win Talent Enterprises Limited, Bondie Investments Limited, Fancy Think, Fine Era Investments Limited, Global Era Investments Limited, Jumbo Yield Investments Limited, Luck Creation Investments Limited, Market Network Limited, Profit Spring Investments Limited, Sammax Investments Limited, Total Super Investments Limited, Trimming Star Group Limited and Truly Gain Investments Limited. As of the date of this offering memorandum, the principal amount of the loan facility in Hong Kong dollars drawn down and outstanding is equivalent to US\$25 million.

The SCB 2011 Facility will mature on February 9, 2014. We cannot voluntarily prepay, in whole or any part of, the SCB 2011 Facility without giving 14 days' prior written notice of prepayment to SCB.

Interest

The SCB 2011 Facility bears interest at the rate of 4.60% *per annum* over HIBOR on the last day of each interest period for an interest period, which may be one, two or three months or any other period agreed between us and SCB as selected by us. Any overdue amount under the SCB 2011 Facility will be subject to default interest at the rate of 2.00% *per annum*.

Covenants

Pursuant to the SCB 2011 Facility, we agreed to the following financial covenants:

- our consolidated tangible net worth¹ will not be less than RMB10.0 billion;
- the ratio of consolidated net borrowings² to consolidated tangible net worth will not at any time exceed 0.75:1;
- the ratio of consolidated EBITDA³ to interest expense⁴ for any relevant period⁵ will not be less than 2:00 to 1;
- the ratio of consolidated PRC borrowings⁶ to consolidated total assets⁷ will not at any time exceed 0.50 to 1; and

¹ "Consolidated tangible net worth," as defined in the SCB 2011 Facility, means, the aggregate of the paid up or credited as paid up issued share capital of the Group and the amounts standing to the credit of our consolidated distributable and non-distributable reserves as shown on our consolidated financial statements after (a) deducting any amount attributable to goodwill or any other intangible assets; (b) deducting any minority interests; (c) including any amounts which would under generally accepted accounting principles, standard and practices ("GAAP") be included in a calculation of the consolidated tangible net worth of the relevant guarantor and its subsidiaries and; (d) eliminating inconsistencies between the accounting principles applied in connection with the latest published audited consolidated balance sheet of the Company and its subsidiaries and those applied in connection with the Company's audited consolidated financial statements for the financial year ended December 31, 2008.

² "Consolidated net borrowings," as defined in the SCB 2011 Facility, means at any time the aggregate (without double counting) of (a) (i) the amount of "Short-term loans" in the latest published audited consolidated balance sheet of the Group (the "Balance Sheet"); and (ii) the current borrowings of members of the Group howsoever described, as calculated in accordance with GAAP; (b) (i) the amount of "Long-term loans" in the Balance Sheet; and (ii) the long term borrowings of members of the Group howsoever described, as calculated in accordance with GAAP, less year-end positive "cash" balance, "restricted cash" balance and bank balance as shown in the Balance Sheet (regardless of whether or not such cash can be remitted to the Company or a guarantor under the SCB 2011 Facility to be applied immediately for the purpose of repaying the SCB 2011 Facility facility.

³ "Consolidated EBITDA," as defined in the SCB 2011 Facility, means, in relation to any relevant period, the total consolidated operating profit of the Group for that relevant period before taking into account (a) (i) interest expense; (ii) tax; and (iii) extraordinary and exceptional items; (b) excluding amounts attributable to minority interests in the subsidiaries; (c) excluding, to the extent included, selling, marketing costs, administrative expenses and other operating expenses; and (d) after adding back all amounts provided for depreciation and amortization for that relevant period, as determined from the financial statements of the Group and the evidence delivered under certain clauses relating to financial statements and compliance with financial covenants.

⁴ "Interest expense," as defined in the SCB 2011 Facility, means, in relation to any relevant period, the aggregate amount of interest and any other finance charges (whether or not paid, payable or capitalized) accrued by the Group in that relevant period in respect of borrowings adjusted (but without double counting) by any unrealized gains or losses in respect of any interest rate hedging derivative transaction.

⁵ "Relevant period," as defined in the SCB 2011 Facility, means (a) each financial year of the Company; and (b) each period beginning on the first day of the second half of a financial year of the Company and ending on the last day of the first half of its next financial year.

⁶ "Consolidated PRC borrowings," as defined in the SCB 2011 Facility, means at any time the aggregate (without double counting) of (a) (i) the amount of "Short-term loans" in the Balance Sheet; and (ii) the current borrowings of members of the Group howsoever described, as calculated in accordance with GAAP; (b) (i) the amount of "Long-term loans" in the Balance Sheet; and (ii) the long term borrowings of members of the Group howsoever described, as calculated in accordance with GAAP, in each case, in relation to short-term loans, long-term loans and borrowings incurred by members of the Group incorporated in the PRC from (x) financial institutions in the PRC or (y) other members of the Group incorporated in the PRC.

⁷ "Consolidated total assets," as defined in the SCB 2011 Facility, means the sum of the current assets and non-current assets of the Group calculated on a consolidated basis by reference to the latest audited financial statements of the Company.

- the Company shall ensure that in any financial year, any distribution, dividend or other payment to its shareholders shall not exceed 50% of the Group's consolidated net profit attributable to that financial year.

We have further agreed, among other things that:

- on the first utilization date, the loan to value ratio ("LTV Ratio") of all loans used to finance and refinance the acquisition or development of the investment properties owned by the Group (the "Investment Property Loans") shall not exceed 55% (excluding for this purpose, the ICBC 2006 Loan); and
- if at any time after the first utilization date, the LTV Ratio of all Investment Property Loans exceeds 65%, the Company shall ensure that the Investment Property Loans are prepaid in such an amount as to restore the LTV Ratio to not more than 55% by not later than three months (or such other later date as may be agreed between the Company and SCB) from the date on which the LTV Ratio exceeds such percentage.

Events of Default

The SCB 2011 Facility contains certain customary events of default, including nonpayment of principal or interest, cross default, insolvency and breaches of the terms of the SCB 2011 Facility. If an event of default has occurred, SCB may, by notice to the Company demand immediate payment or repayment of all amounts outstanding including all interest accrued thereon.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to KWG Property Holding Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined herein) is referred to as a “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Intercreditor Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Intercreditor Agreement. 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 Citicorp International Limited, 39th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption “— The Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;
- effectively subordinated to the other secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

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

- be entitled to a first priority lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Company will initially issue US\$350,000,000 in aggregate principal amount of the Notes, which will mature on March 30, 2016, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will bear interest at 12.75% 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 March 30 and September 30 of each year (each an “Interest Payment Date”), commencing September 30, 2011. Interest on the Notes will be paid to Holders of record at the close of business on March 15 or September 15 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as described under “Optional Redemption” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Trustee, 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.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York (which initially will be the corporate trust administration office of the Trustee) and the Notes may be presented for registration of transfer or exchange at such office or agency; provided that, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register for Holders of Certificated Notes who have not provided a specified account for receipt

of funds to the Paying Agent. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company's Restricted Subsidiaries other than the Non-Guarantor Subsidiaries (defined below). Certain of the Subsidiary Guarantors are holding companies that do not have significant operations.

The following Restricted Subsidiaries will not be Subsidiary Guarantors on the Original Issue Date:

- all Subsidiaries organized under the laws of the PRC (together, the "PRC Non-Guarantor Subsidiaries"); and
- Prime Way Enterprises Limited, Gain Right Limited, Clear Place Limited, Time Joy Investments Limited, Beauty Sight Investments Limited, Nice Build Investments Limited, Rich Come Enterprises Limited, Mind Right Investments Limited, Upper Wisdom Investments Limited and Champ Joyment Limited (the "Other Non-Guarantor Subsidiaries").

The Other Non-Guarantor Subsidiaries, together with the PRC Non-Guarantor Subsidiaries, are referred to herein as the "Non-Guarantor Subsidiaries."

None of the Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee on the Original Issue Date. In addition, any future Restricted Subsidiaries that may be organized under the laws of the PRC will not at any time in the future provide a Subsidiary Guarantee or JV Subsidiary Guarantee. Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries organized under the laws of the PRC and the Other Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.

The Company will use its commercially reasonable best efforts to take all necessary actions, including obtaining necessary consents or governmental approvals, to cause each of Prime Way Enterprises Limited, Gain Right Limited, Clear Place Limited and Time Joy Investments Limited to become a Subsidiary Guarantor or JV Subsidiary Guarantor promptly after such Other Non-Guarantor Subsidiary commences investment for the purposes of commencing business activities, or if any such Other Non-Guarantor Subsidiary has commenced business activities as of the Original Issue Date, as soon as practicable after the Original Issue Date, provided, in each case, that such Restricted Subsidiary would not be required to register as an investment company under the United States Investment Company Act of 1940, as amended.

The Company shall cause each of Mind Right Investments Limited and Champ Joyment Limited promptly upon the repayment in full of the 2008 ICBC Loan on or before July 30, 2011 to become a Subsidiary Guarantor or JV Subsidiary Guarantor provided, in either case, that the relevant Restricted Subsidiary would not be required to register as an investment company under the United States Investment Company Act of 1940, as amended. At the same time the Company or the

relevant Subsidiary Guarantor Pledgor shall cause the Capital Stock of Mind Right Investments Limited and Champ Joyment Limited to be pledged to secure the obligations of the Company under the Notes and the Indenture.

The Company shall cause each of Beauty Sight Investments Limited, Nice Build Investments Limited, Rich Come Enterprises Limited and Upper Wisdom Investments Limited promptly upon the repayment in full of the 2010 ICBC Loan on or before July 29, 2013 to become a Subsidiary Guarantor or JV Subsidiary Guarantor provided, in each case, that the relevant Restricted Subsidiary would not be required to register as an investment company under the United States Investment Company Act of 1940, as amended. At the same time the Company or the relevant Subsidiary Guarantor Pledgor shall cause the Capital Stock of Beauty Sight Investments Limited, Nice Build Investments Limited, Rich Come Enterprises Limited and Upper Wisdom Investments Limited to be pledged to secure the obligations of the Company under the Notes and the Indenture.

In the case of a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% and no more than 49.9% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase no less than 50.1% of the Capital Stock of an Independent Third Party and designate such entity as a Restricted Subsidiary, the Company may, concurrently with the consummation of such sale or purchase, provide a JV Subsidiary Guarantee instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of a JV Subsidiary Guarantee, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor (the “JV Subsidiary Guarantee”) and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC, and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;

- (ii) a duly executed Security Document that pledges in favor of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
- (iii) an Officers' Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
- (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is legal, valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

As of December 31, 2010, the Company and its consolidated subsidiaries had total bank loans of approximately RMB10,713.3 million (US\$1,623.2 million), of which approximately RMB9,789.2 million (US\$1,483.2 million) was secured.

As of December 31, 2010, the Non-Guarantor Subsidiaries had bank loans of approximately RMB9,864.6 million (US\$1,494.6 million), and capital commitments and contingent liabilities arising from guarantees of approximately RMB2,230.2 million (US\$337.9 million) and RMB8,060.5 million (US\$1,221.3 million), respectively. See "Capitalization and Indebtedness".

The Subsidiary Guarantee of each Subsidiary Guarantor:

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

If any are provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will be limited to the JV Entitlement Amount and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and

- will be limited to the JV Entitlement Amount and will rank at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC) to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor, as soon as practicable and in any event within 30 days after such Person becomes a Restricted Subsidiary.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than through a JV Subsidiary Guarantee is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture will be a “Subsidiary Guarantor.”

In addition, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Subsidiary Guarantees of each Subsidiary Guarantor Pledgor shared on a *pari passu* basis with the lender of the SCB 2009 Facility will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The JV Subsidiary Guarantee of each JV Subsidiary Guarantor will not be secured.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; provided that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees and the JV Subsidiary Guarantees, are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable,

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and

- each JV Subsidiary Guarantee will be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

No assurance can be given that the preceding provision limiting the maximum amount of each Subsidiary Guarantee or JV Subsidiary Guarantee will be given effect. If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable for any reason, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor's liability on its JV Subsidiary Guarantee could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The Subsidiary Guarantees and JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or the JV Subsidiary Guarantees."

Release of the Subsidiary Guarantees and JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "— Defeasance — Defeasance and Discharge";
- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "— Certain Covenants — Limitation on Asset Sales" and "— Consolidation, Merger and Sale of Assets") resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture; or

- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee or a JV Subsidiary Guarantor from its JV Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company 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.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale, whether through the sale of existing shares or the issuance of new shares is for no less than 20% and no more than 49.9% of the Capital Stock of the relevant Subsidiary Guarantor, provided that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale is made to an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantees have been approved by a majority of the disinterested members of the Board of Directors; and

- (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is legal, valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including the “Limitation on Asset Sales” and “Limitation on Restricted Payments” covenants.

Any Net Cash Proceeds from the sale of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the “Limitation on Asset Sales” covenant.

As of the date of the Indenture, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.” However, under the circumstances described below under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries,” the Company will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries will not Guarantee the Notes.

Security

The Company has agreed, for the benefit of the holders of the Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors other than Market Network Limited (the “Collateral”) (subject to Permitted Liens and *pari passu* sharing described below) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. In addition, the Company and the initial Subsidiary Guarantor Pledgors have agreed to:

- (a) execute one or more Security Documents granting to the Trustee, for the benefit of the Holders (or any Person on behalf of the Trustee or the Holders), Liens on the relevant Collateral (subject to any Permitted Liens);
- (b) take all requisite steps under applicable laws and undertake other customary procedures in connection with the granting and perfection (if relevant) of the Lien on relevant Collateral (subject to any Permitted Liens); and
- (c) deliver to the Trustee on the Original Issue Date an Opinion of Counsel and an Officers’ Certificate relating to each such pledge in form and substance as set forth in the Indenture.

The initial Subsidiary Guarantor Pledgors are Able Talent International Limited, Act Power International Limited, Boom Faith International Limited, Cheerful Hill Group Limited, Extreme Beauty Enterprises Limited, Fame Rich Group Limited, Fast Choice Group Limited, Good Excel Enterprises Limited, Happy Clear Consultants Limited, High Ascent Enterprises Limited, High Insight Enterprises Limited, Hugeluck Investments Limited, Now Rich Holdings Limited, Pine Billion Enterprises Limited, Power Place Enterprises Limited, Reach Luck Consultants Limited, Rising Wave Enterprises Limited and Win Talent Enterprises Limited.

None of the Capital Stock of the Non-Guarantor Subsidiaries and Market Network Limited will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future. If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Trustee.

The Company has also agreed, for the benefit of the holders of the Notes, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, the Capital Stock directly owned by the Company or such Subsidiary Guarantor of any Person that becomes a Subsidiary Guarantor or JV Subsidiary Guarantor after the Original Issue Date, as soon as practicable and in any event within 30 days after such Person becomes a Subsidiary Guarantor or JV Subsidiary Guarantor, to secure (subject to Permitted Liens) the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges capital stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor”.

The Collateral will be shared on a *pari passu* basis by the holders of the Notes and the holders of other secured indebtedness including the holders of the 2010 Notes and the lender of the SCB 2009 Facility and the lender of the SCB 2011 Facility. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness.

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) is unlikely to be sufficient to satisfy the Company’s and each of the Subsidiary Guarantor Pledgors’ obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement), and the Collateral securing the Notes and such Subsidiary Guarantee (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See “— Release of Security” and “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantee and the Collateral — The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes”.

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement). By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Event of Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) and any *Pari Passu* Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any such *Pari Passu* Subsidiary Guarantee, “Permitted *Pari Passu* Secured Indebtedness”); *provided* that (1) the Company or such Subsidiary Guarantor Pledgor was permitted to Incur such Indebtedness under the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”, (2) the holders (or their representatives) of such Indebtedness (other than Additional Notes) become party to the Intercreditor Agreement referred to below; (3) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such *Pari Passu* Subsidiary Guarantee substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor Pledgor than the provisions of the Indenture and the Security Documents; and (4) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee an Opinion of Counsel and Officers’ Certificate with respect to corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents. The Trustee will be permitted and authorized, without the consent of any Holder, to enter into any amendments to the Security Documents, the Intercreditor Agreement or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted *Pari Passu* Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted *Pari Passu* Secured Indebtedness).

Except for certain Permitted Liens and the Permitted *Pari Passu* Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

(i) The Company, (ii) the initial Subsidiary Guarantor Pledgors, (iii) Citicorp International Limited (the “Shared Security Agent”), (iv) Standard Chartered Bank (Hong Kong) Limited as the lender under the SCB 2009 Facility and (v) Citicorp International Limited, as trustee with respect to the 2010 Notes (the “2010 Trustee”), have entered into an intercreditor agreement dated August 18, 2010, as amended and supplemented by the supplemental intercreditor agreement dated February 9, 2011 by and among Standard Chartered Bank (Hong Kong) Limited as the lender under the 2011 SCB Facility, the Shared Security Agent, the Company and the Subsidiary Guarantor Pledgors named therein (the “Intercreditor Agreement”) to which the Trustee will accede on the Original Issue Date, pursuant to which they agree to (1) share the Collateral on a equal and ratable basis, the parties thereto shall share equal priority and *pro rata* entitlement in and to the Collateral; (2) the

conditions that are applicable to the release of or granting of any Lien on such Collateral; and (3) the conditions under which their rights with respect to such Collateral and the Indebtedness secured thereby will be enforced.

Prior to the first Incurrence of any Permitted *Pari Passu* Secured Indebtedness (other than Additional Notes), the holders of such Permitted *Pari Passu* Secured Indebtedness (or their representative) will accede to the Intercreditor Agreement to include the holders of such Permitted *Pari Passu* Secured Indebtedness as parties to the Intercreditor Agreement.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement, any supplements, amendments or modifications thereto, and any future intercreditor agreement required under the Indenture.

Enforcement of Security

The first priority Liens securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, will be granted to the Shared Security Agent, subject to *pari passu* sharing. The Shared Security Agent will hold such liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Holders to exercise remedies under the Security Documents. The Shared Security Agent has agreed to act as secured party on behalf of the Trustee (for the benefit of the Holders) under the applicable Security Documents, to follow the instructions provided to it under the Indenture and the Security Documents and to carry out certain other duties.

The Indenture and/or the Security Documents principally provide that, at any time while the Notes are outstanding, the Shared Security Agent has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture. However, although the Trustee may instruct the Shared Security Agent to foreclose the Collateral upon the occurrence of an Event of Default that is continuing, such instruction may be overruled by a contrary instruction to the Shared Security Agent from holders of more than 50% of the indebtedness that is subject to the Intercreditor Agreement. See “Risk Factors — The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes, the 2010 Notes and other *pari passu* secured indebtedness”.

All payments received and all amounts held by the Shared Security Agent in respect of the Collateral under the Security Documents will be applied as follows:

first, to the Shared Security Agent for any unpaid fees, costs and expenses incurred under the Intercreditor Agreement or the Security Documents;

second, *pro rata* to each of the Trustee and any agent or representative of any series of Permitted *Pari Passu* Secured Indebtedness for any unpaid fees, costs and expenses under the applicable secured party document;

third, *pro rata* to each of the Trustee for the benefit of Holders, the 2010 Trustee for the benefit of the holders of the 2010 Notes, the lender under the SCB 2009 Facility and the lender under the SCB 2011 Facility and, to the extent applicable, to holders of Permitted *Pari Passu* Secured Indebtedness (or their representative), inclusive of any fees and expenses of each secured party (to

the extent not paid pursuant to the second item above), and the principal, interest and premium thereon and for the benefit of the holders of each thereof in accordance with the terms of the relevant secured party document; and

fourth, any surplus remaining after such payments will be paid to the Company or the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Shared Security Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification and/or security to its satisfaction. In addition, the Shared Security Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Shared Security Agent's Liens on the Collateral. Neither the Trustee, the Shared Security Agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Shared Security Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Trustee arising out of the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence or willful misconduct of the Shared Security Agent.

This section, “— Enforcement of Security,” shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted *Pari Passu* Secured Indebtedness in accordance with “— Permitted *Pari Passu* Secured Indebtedness” above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption “— Defeasance — Defeasance and Discharge”;
- upon certain dispositions of the Collateral in compliance with the covenants under the captions “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries” or “— Limitation on Asset Sales” or in accordance with the provision under the caption “— Consolidation, Merger and Sale of Assets”;
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture; and

- in connection with and upon execution of a JV Subsidiary Guarantee to replace a Subsidiary Guarantee with respect to all pledges of Capital Stock granted by such JV Subsidiary Guarantor in its direct and indirect Subsidiaries, and in accordance with the terms of the Indenture.

Further Issues

Subject to the covenants described below, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees, JV Subsidiary Guarantees and the pledges of the Collateral) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock” covenant described below. Citicorp International Limited may serve as trustee with respect to any Additional Notes.

Optional Redemption

At any time and from time to time on or after March 30, 2014, the Company 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 March 30 of each of the years indicated below.

<u>Period</u>	<u>Redemption Price</u>
2014	106.3750%
2015 and thereafter.	103.1875%

At any time prior to March 30, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption.

At any time and from time to time prior to March 30, 2014, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 112.75% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any national securities exchange, on a *pro rata* basis, by lot or by such method as the Trustee deems fair and appropriate.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

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

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company’s failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company’s ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company’s and the Subsidiary Guarantor’s then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a Change of Control Triggering Event”.

The phrase “all or substantially all”, as used with respect to the assets of the Company in the definition of “Change of Control,” will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “— Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or an applicable JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, the PRC (each as applicable, a “Relevant Taxing Jurisdiction”) or any jurisdiction through which payments are made (or any political subdivision or taxing authority thereof or therein) (together with each Relevant Taxing Jurisdiction, as applicable, a “Relevant Jurisdiction”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or the applicable JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note, the Subsidiary Guarantees or the JV Subsidiary Guarantees, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any 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 or Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, or interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;

- (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor or any JV Subsidiary Guarantor addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder or beneficial owner; 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 imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26–27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) with respect to any payment of the principal of, or premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee or JV Subsidiary Guarantee to a Holder, if the Holder 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 member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all beneficial owners of Notes.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and upon reasonable notice in advance of such notice to Holders to the Trustee and the Paying and Transfer Agent (which notice shall be irrevocable), at a redemption price

equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the “Tax Redemption Date”) if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant 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 is proposed and becomes effective (i) with respect to the Company or any initial Subsidiary Guarantor or JV Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person, a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers’ Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, such Surviving Person, Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, provided that the Company may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.75 to 1.0 with respect to any Incurrence of Indebtedness on or prior to March 31, 2012 and 3.25 to 1.0 with respect to any Incurrence of Indebtedness thereafter. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
 - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted *Pari Passu* Secured Indebtedness of the Company) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) any *Pari Passu* Subsidiary Guarantees by any Subsidiary Guarantor or any JV Subsidiary Guarantor;
 - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); *provided that* such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;
 - (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided that* (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d) and (ii) if the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor, or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, in the case of a JV Subsidiary Guarantor and (iii) if the Indebtedness is owed to the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor, such Indebtedness must be evidenced by an unsubordinated promissory note or a similar instrument under applicable law;
 - (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (o), (p) or (q) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided that* (i) Indebtedness the proceeds of which are used to

refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, (iii) in no event may Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor or JV Subsidiary Guarantor, and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any JV Subsidiary Guarantor;

- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; provided that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount

outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof and the aggregate principal amount of Indebtedness that was permitted to be Incurred under clause (q) and refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;

- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;
- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided that* the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided, however*, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or, (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (f) or (h) above or clause (n) below or (iii) Guarantees by any JV Subsidiary Guarantor of Indebtedness of any other JV Subsidiary Guarantor that is a direct or indirect Subsidiary or parent of such JV Subsidiary Guarantor, which Indebtedness was permitted to be Incurred by another provision of this covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided that* the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding does not exceed US\$30.0 million (or the Dollar Equivalent thereof);

- (o) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$10.0 million (or the Dollar Equivalent thereof);
 - (p) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock in a Restricted Subsidiary pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement;
 - (q) Indebtedness Incurred by the Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a PRC Project Company; provided that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (q) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clause (h) above and the refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h) above to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets; and
 - (r) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of any Indebtedness of an Associate by the Company or such Restricted Subsidiary, if, after giving effect to the Incurrence of such Indebtedness, no Default has occurred and is continuing, and (i) with respect to Indebtedness Incurred on or after the Original Issue Date until the date nine months after the Original Issue Date, the aggregate of all Indebtedness Incurred under this clause (r) shall not exceed 15% of Total Assets and (ii) with respect to Indebtedness Incurred after the date nine months after the Original Issue Date, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the immediately preceding paragraph (1).
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (1), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable or paid in shares of the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;

- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary other than the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement);
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its 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 Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”; or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Measurement Date, shall exceed the sum of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter during which the 2010 Notes were first issued and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
 - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the 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 Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus

- (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
- (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the 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 Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Measurement Date, (B) the unconditional release of a Guarantee provided by the Company 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 was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person.

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, provided however that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a

substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, provided however that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);

- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a *pro rata* basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;
- (6) dividends paid to, or the purchase of Capital Stock of any PRC Project Company held by, any Trust Company Investor in respect of any Indebtedness outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(q) of the “Limitation on Indebtedness and Preferred Stock” covenant; or
- (7) the declaration and payment of dividends by the Company with respect to the fiscal year ended December 31, 2010 in an aggregate amount not to exceed US\$50.0 million (or the Dollar Equivalent thereof);

provided that, in the case of clause (2), (3) or (4) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clauses (1) and (7) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors’ determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers’ Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this “— Limitation on Restricted Payments” covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted *Pari Passu* Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or *Pari Passu* Subsidiary Guarantee of any Subsidiary Guarantor or any JV Subsidiary Guarantor, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (b) existing under or by reason of applicable law, rule, regulation or order;
 - (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that
 - (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or
 - (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or
 - (iii) do not relate to any Indebtedness, and that do not, individually or

in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants; or
- (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)(h) or clause (2)(q) or permitted under clause (2)(n) or (o) of the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes and, with respect to clauses 2(h), 2(o) and 2(q), 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.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary;
- (2) to the extent such Capital Stock represents director’s qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) for the 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; and
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the “— Limitation on Asset Sales” covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness (“Guaranteed Indebtedness”) of the Company or any other Restricted Subsidiary, unless (1) (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV

Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (2)(c), (d) or (m)(ii) (other than, in the case of clause (m)(ii) a Guarantee by a Restricted Subsidiary that is not a Subsidiary Guarantor or JV Subsidiary Guarantor of the Indebtedness of a Subsidiary Guarantor or a JV Subsidiary), under the caption “— Limitation on Indebtedness and Preferred Stock.”

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

- (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1) 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 Company; and
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option or other incentive 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.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the “Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, (iii) any transaction between or among any of the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary; provided that in the case of clause (iii) (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary or by reason of being a Restricted Subsidiary) and (iv) any Investment by the Company or any Restricted Subsidiary in an Associate permitted under paragraph (16) of the definition of “Permitted Investment” on a *pro rata* basis in accordance with its percentage of ownership in such Associate at the time of such Investment, computed after giving effect to such Investment and any other Investments by any Person that owns the Capital Stock of such Associate at such time.

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that the Company may enter into a Sale and Leaseback Transaction if:

- (1) the Company 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 Company applies the proceeds of such transaction in compliance with, the covenant described below under the caption “— Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;
- (3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock” after giving pro forma effect to such Asset Disposition; and

- (4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
 - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion;

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties or assets that will be used in the Permitted Businesses ("Replacement Assets"); and

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess Proceeds of less than US\$10 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceeds US\$10 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee (in consultation with the Company) will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a *pro rata* basis based on the principal amount of the Notes (and such other *pari passu* Indebtedness) tendered. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided, however*, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made by the covenant under the caption “— Limitation on Restricted Payments”.

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated, under the caption “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) neither the Company nor any Restricted Subsidiary provides credit support for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under the caption “— Limitation on Liens”; (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “— Limitation on Restricted Payments”.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding

at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “— Limitation on Liens”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under “— Security”.

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both of the Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from either of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (2) “— Certain Covenants — Limitation on Restricted Payments”;

- (3) “— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “— Certain Covenants — Limitation on the Company’s Business Activities”;
- (7) “— Certain Covenants — Limitation on Sale and Leaseback Transactions”; and
- (8) “— Certain Covenants — Limitation on Asset Sales”.

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary”.

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “— Certain Covenants — Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company’s common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; provided that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;

- (b) as soon as they are available, but in any event within 90 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 60 calendar days after the end of each of the first and third financial quarter of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent fiscal 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 Company'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 Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 days;
- (3) default in the performance or breach of the provisions of the covenant described under "— Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Limitation on Asset Sales," or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption "— Security";
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$7.5 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$7.5 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any 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 Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company 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 Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company 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 Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors;
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;
- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents or the Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a security interest in the Collateral (subject to any Permitted Liens).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall (and subject to being indemnified and/or secured to its satisfaction by the Holders), declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of the Holders of Notes waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes (and subject to being indemnified and/or secured to its satisfaction by the Holders), (i) give the Shared Security Agent a written notice of the occurrence of such continuing Event of Default and (ii) instruct the Shared Security Agent in accordance with the terms of the Intercreditor Agreement to foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See “— Security”.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

A Holder of Notes may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity and/or security satisfactory to it; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee of any default or defaults in the performance of any covenants or agreements under the Indenture. See "— Provision of Financial Statements and Reports".

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong, Bermuda or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which payments are made, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;

- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “— Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries’ properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor);
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

- (4) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “— Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “— The Subsidiary Guarantees — Release of the Subsidiary Guarantees”.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee, in trust, money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) has delivered to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount

deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture;

- (2) the Company has delivered to the Trustee an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, each of the Subsidiary Guarantees and JV Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under “— Consolidation, Merger and Sale of Assets” and all the covenants described herein under “— Certain Covenants,” other than as described under “— Certain Covenants-Government Approvals and Licenses; Compliance with Law” and “— Certain Covenants-Anti-Layering,” clause (3) under “Events of Default” with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “Events of Default” with respect to other covenants and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money 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 Company exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default in respect of the Notes that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

Amendments and Waivers

Amendments Without Consent of Holders

The Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, if any, the Subsidiary Guarantor Pledgors, the Shared Security Agent and the Trustee may amend and supplement the Indenture, the Intercreditor Agreement or any Security Document, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement or any Security Document;
- (2) comply with the provisions described under “— Consolidation, Merger and Sale of Assets”;
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture;
- (7) add additional Collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (8) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (9) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (10) permit Permitted *Pari Passu* Secured Indebtedness (including, without limitation, permitting the Trustee and the Shared Security Agent to enter into any amendments to the Intercreditor Agreement or the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted *Pari Passu* Secured Indebtedness, in accordance with the Indenture); or
- (11) make any other change that does not materially and adversely affect the rights of any Holder.

Amendments With Consent of Holders

Amendments of the Indenture or any Security Document may be made by the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, if any, the Shared Security Agent and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of

the outstanding Notes and the holders of a majority in principal amount of the Notes may waive future compliance by the Company with any provision of the Indenture, the Intercreditor Agreement or any Security Document; *provided*, however, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Intercreditor Agreement, the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of the Intercreditor Agreement, any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;
- (13) change the redemption date or the redemption price of the Notes from that stated under the captions “— Optional Redemption” or “— Redemption for Taxation Reasons”;
- (14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or

- (15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees, or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee, Registrar, Shared Security Agent and Paying Agent

Citicorp International Limited is to be appointed as Trustee under the Indenture and as Shared Security Agent with respect to the Collateral under the Security Documents and the Intercreditor Agreement, Citigroup Global Markets Deutschland AG is to be appointed as registrar and Citibank, N.A., London Branch is to be appointed as the paying agent (the “Paying Agent”) with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26–27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

Citicorp International Limited will initially act as the Shared Security Agent under the Security Documents in respect of the security over the Collateral. The Shared Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture, the Intercreditor Agreement and the Security Documents. Under certain circumstances, the Shared Security Agent may have obligations under the Security Documents, the Indenture or the Intercreditor Agreement that are in conflict with the interests of the Trustee, the Holders and the holders (or their representatives) of Permitted *Pari Passu* Secured Indebtedness (if any). Neither the Trustee nor the Shared Security Agent will be under any obligation to exercise any rights or powers conferred under the Indenture, the Intercreditor Agreement or any of the Security Documents for the benefit of the Holders or the holders (or their representatives) of Permitted *Pari Passu* Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted *Pari Passu* Secured Indebtedness (if any) have offered to the Trustee and/or the Shared Security Agent indemnity and/or security satisfactory to it against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee and the Shared Security Agent, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee or the Shared Security Agent in respect of such risks.

The Trustee is entitled to rely on all certifications received pursuant to the Indenture and the Security Documents without investigating the accuracy, authenticity and validity of these certifications.

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 Company, 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 depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “— Additional Amounts”.

Under the terms of the Indenture, the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Note (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, 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 amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with

adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "Transfer Restrictions".

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, 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 book-entry 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 Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by the Company and the registrar to complete, execute and deliver such individual definitive notes. 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 postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint National Corporate Research Ltd. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

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.

"2008 ICBC Loan" means the HK\$250 million secured term loan facility made available to Champ Joyment Limited pursuant to an agreement dated July 30, 2008 between Champ Joyment Limited and Industrial and Commercial Bank of China (Asia) Limited as lender (as amended, supplemented or modified from time to time).

"2010 ICBC Loan" means the HK\$500 million secured term loan facility made available to Beauty Sight Investments Limited pursuant to an agreement dated July 29, 2010 between Beauty Sight Investments Limited and Industrial and Commercial Bank of China (Asia) Limited as lender (as amended, supplemented or modified from time to time).

"2010 Notes" means any and all outstanding notes of the initially issued US\$250,000,000 12.50% Senior Notes due 2017 of the Company.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the redemption price of such Note at March 30, 2014 (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 March 30, 2014 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale or issuance of Capital Stock of a Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “— Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “— Consolidation, Merger and Sale of Assets”; and
- (7) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary.

“Associate” has the meaning set forth in paragraph (16) of the definition of “Permitted Investment”.

“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 Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;
- (2) the Permitted Holders are the beneficial owners of less than 35% of the total voting power of the Voting Stock of the Company;
- (3) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least 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 Company then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and a Rating Decline.

“Clearstream” means Clearstream Banking, société anonyme, Luxembourg.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors.

“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 the remaining term of the Notes to be redeemed 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 March 30, 2014.

“Comparable Treasury Price” means, with respect to any redemption date:

- (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities;” or
- (2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income,

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees) and (7) any capitalized interest, *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
 - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter,

articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “— Limitation on Asset Sales” and “—

Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Equity Offering” means (i) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; *provided* that any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank S.A./N.V.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of international standing appointed by the Company.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter 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 Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay such Indebtedness;

- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the 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 generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Preferred Stock issued by any such Person that is a Restricted Subsidiary and Disqualified Stock issued by any Person valued, in each case, 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 Trust Company Investor that obligates the Company or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person shall be deemed to be “Indebtedness”.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligation or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business; *provided* that such Indebtedness is not reflected on the balance sheet of the Company or any Restricted Subsidiary (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (2)(f) under the “Limitation on Indebtedness and Preferred Stock” covenant, and (ii) equal to the net amount payable if such Hedging Obligation terminated at that time due to default by such Person if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Intercreditor Agreement” has the meaning set forth under “— Security.”

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person 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” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “—” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s, or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody’s or both, as the case may be.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor and its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its Subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “— The Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Measurement Date” means August 18, 2010.

“Moody’s” means Moody’s Investors Service, Inc. and its affiliates.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;

- (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying and Transfer Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;
- (2) the purchase price, 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”) and the applicable Rate Calculation Date;
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying and Transfer Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying and Transfer Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying and Transfer Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying and Transfer Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“Officers' Certificate” means a certificate signed by two Officers.

“Opinion of Counsel” means a written opinion from legal counsel who is acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“*Pari Passu* Subsidiary Guarantee” means a Guarantee by any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); provided that (1) the Company was permitted to Incur such Indebtedness under the covenant under the caption “— Limitation on Indebtedness and Preferred Stock” and (2) such Guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption “— Repurchase of Notes upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under the caption “— Limitation on Asset Sales” or (4) any Event of Default specified in clause (4) of the definition of Events of Default.

“Permitted Businesses” means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company and its Restricted Subsidiaries on the Original Issue Date.

“Permitted Holders” means any or all of the following:

- (1) Mr. Kong Jian Min, Mr. Kong Jian Tao and Mr. Kong Jian Nan;
- (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% or more by Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant under the caption “— Limitation on Asset Sales.”
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “— Limitation on Liens”;

- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;
- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;
- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of business; and
- (16) any Investment by the Company or any Restricted Subsidiary in any corporation, association or other business entity primarily engaged in a Permitted Business, of which at least 20% of the Capital Stock and the Voting Stock is owned, directly or indirectly, by the Company or any Restricted Subsidiary (such corporation, association or other business entity, an "Associate"); provided that:
 - (a) none of the other holders of Capital Stock of such Associate is a Person described in clauses (a) or (b) of the first paragraph of the covenant described under "— Limitation on Transactions with Shareholders and Affiliates" covenant (other than by reason of such holder being an officer or director of the Company or a Restricted Subsidiary);
 - (b) on or before the date that is nine months after the Original Issue Date, the aggregate of all Investments Incurred under this clause (16) shall not exceed 25% of Total Assets;
 - (c) starting after the date that is nine months after the Original Issue Date, the Company must be able to Incur at least US\$1.00 of Indebtedness under the proviso in paragraph (1) of the "— Limitation on Indebtedness and Preferred Stock" covenant;
 - (d) no Default has occurred and is continuing or would occur as a result of such Investment; and
 - (e) with respect to an Associate in which the Company or any Restricted Subsidiary has made an Investment pursuant to this clause (16), if the Company or such Restricted Subsidiary no longer owns at least 20% of the Capital Stock, such Investment less the amount of any Receipt will be deemed not to have been made in accordance with

this clause (16) and such Investment must at the time such Associate is no longer treated as an Associate satisfy the other requirements of the covenant described under “— Limitation on Restricted Payments” (including meeting the requirements of one of the other clauses set forth under this “Permitted Investment” definition).

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (f) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “— Limitation on Indebtedness and Preferred Stock”; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing any Permitted *Pari Passu* Secured Indebtedness that complies with each of the requirements set forth under “— Security — Permitted *Pari Passu* Secured Indebtedness”;
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (18) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant under the caption entitled “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the

cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

- (19) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (21) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (22) Liens on the Capital Stock of a PRC Project Company granted by the Company or any PRC Restricted Subsidiary in favor of any Trust Company Investor in respect of, and to secure, the Indebtedness permitted to be Incurred under paragraph (q) of the second paragraph of the “—Limitation on Indebtedness and Preferred Stock” covenant; and
- (23) Liens on the Capital Stock of Associates granted by the Company or any Restricted Subsidiary where such Associate was established to conduct a Permitted Business;

provided that, with respect to the Collateral, “Permitted Liens” shall only refer to Liens described in clauses (1) and (13) of this definition.

“Permitted *Pari Passu* Secured Indebtedness” has the meaning set forth under “— Security — Permitted *Pari Passu* Secured Indebtedness.”

“Permitted Subsidiary Indebtedness” means Indebtedness (other than Public Indebtedness) of, and all Preferred Stock issued by, the Restricted Subsidiaries, 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 (but excluding the amount of any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (b), (d), (f) and (g) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 15% of the Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Project Company” means (i) Suzhou City Kaiyu Real Estate Development Co., Ltd. (蘇州市凱譽房地產開發有限公司) or (ii) any corporation, association or other business entity organized under the laws of the PRC primarily engaged in a Permitted Business which, at any time, is treated as a “subsidiary” of the Company under GAAP, other than an Unrestricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Public Indebtedness” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“Rating Agencies” means (1) S&P and (2) Moody’s and (3) if S&P or Moody’s or both shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Moody’s or both, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “—” for S&P; “1,” “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “B-” to “B+”, will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets”, that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets”, the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by both Moody’s and S&P on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;
- (b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (c) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Receipt” means, at any time, with respect to an Associate, an amount equal to the net reduction in all Investments made in such Associate under clause (16) of the definition of “Permitted Investment” since the Original Issue Date resulting from (A) receipt of payments in cash by the Company or any Restricted Subsidiary in respect of all such Investments, including interest on, or repayments of, loans or advances, dividends or other distributions (except, in each case, to the extent any such payments are included in the calculation of Consolidated Net Income), (B) the unconditional release of a Guarantee of any obligation of any Associate provided under such clause (16) after the Original Issue Date by the Company or any Restricted Subsidiary, (C) to the extent that an Investment made after the Original Issue Date under such 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 reasonable costs of disposition, if any) and (y) the initial amount of such Investment, or (D) such Associate becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Associate since the Original Issue Date shall be deemed to have been made pursuant to clause (1) of the definition of “Permitted Investment” definition.

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

“Restricted Subsidiary” means any Subsidiary of the Company, other than an Unrestricted Subsidiary.

“Replacement Assets” has the meaning assigned to such term under the “Limitation on Asset Sales” covenant.

“Renminbi” or “RMB” means the lawful currency of the PRC.

“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 Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“SCB 2009 Facility” means the HK\$300 million term loan facility made available to the Company pursuant to an agreement dated April 27, 2009 between the Company and Standard Chartered Bank (Hong Kong) Limited as lender (as amended, supplemented or modified from time to time).

“SCB 2011 Facility” means the HK\$195 million secured and guaranteed term loan facility made available to the Company pursuant to an agreement dated February 9, 2011 between the Company and Standard Chartered Bank (Hong Kong) Limited as lender (as amended, supplemented or modified from time to time).

“Security Documents” means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Trustee and/or any Holders (or any Person on behalf of the Trustee or any Holders) in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) Trade Payables or (3) Indebtedness Incurred in violation of the Indenture.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“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.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; provided that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges, or purports to pledge, Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, in each case maturing within one year;
- (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 Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign

country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;

- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Agricultural Bank of China, Bank of China, Bank of Communications, China Merchants Bank, Industrial Commercial Bank of China, Construction Bank of China, or Bank of Shanghai, (ii) Guangzhou Rural Commercial Bank, Guangzhou Rural Credit Union, Chinese Mercantile Bank, Standard Chartered Bank, China Minsheng Banking Corp., Ltd., Guangdong Development Bank or Shanghai Pudong Development Bank, (iii) any other bank or trust company organized under the laws of the PRC whose long-term debt is rated as high or higher than any of those banks described in clause (i) of this paragraph or (iv) any other bank organized under the laws of the PRC; *provided* that, in the case of clause (iv), 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 Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(h) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable within 90 business days.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Trust Company Investor” means an Independent Third Party that is a financial institution or an insurance company organized under the laws of the PRC, or an Affiliate thereof, that Invests in any Capital Stock of a PRC Project Company.

“Unrestricted Subsidiary” means Ally Fortune Limited and any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and any Subsidiary of an Unrestricted Subsidiary (including but not limited to Ally Fortune Limited).

“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.

TAXATION

The following summary of certain Cayman Islands, British Virgin Islands, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest and principal on the Notes will not be subject to taxation and no withholding will be required on the payment of interest and principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

No stamp duty is payable in respect of the issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from August 8, 2006.

British Virgin Islands

There is no income or other tax in the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

Hong Kong

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong) of a Note.

PRC Taxation

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Taxation on Interest

The New Tax Laws, effective January 1, 2008, impose a tax at the rate of 10% on interest paid to holders of the Notes that are “non-resident enterprises” so long as any such “non-resident enterprise” holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China, to the extent such interest is sourced within China. Pursuant to these provisions of the New Tax Laws, although the matter is unclear, if we are considered a PRC resident enterprise, interest payable to non-resident enterprise holders on the Notes may be treated as income derived from sources within China and be subject to the PRC withholding tax. We currently do not intend to withhold taxes from interest payments, but there can be no assurance that the PRC income tax authorities will accept our withholding position. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified investors in the Notes.

Taxation on Capital Gains

The New Tax Laws, impose a tax at the rate of 10% on capital gains realized by holders of the Notes that are “non-resident enterprises” so long as any such “non-resident enterprise” holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China, to the extent such capital gains are sourced within China. Pursuant to these provisions of the New Tax Laws, although the matter is unclear, if we are considered a PRC resident enterprise, the capital gains realized by non-resident enterprise holders of the Notes may be treated as income derived from sources within China and be subject to the PRC tax. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified investors in the Notes.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Mainland China) of a Note.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated March 23, 2011 (the “Purchase Agreement”) Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (the “Initial Purchasers”), have agreed to purchase from us, and we have agreed to sell to the Initial Purchasers, the following aggregate principal amount of the Notes.

	<u>Principal Amount</u>
Citigroup Global Markets Limited	US\$116,666,667
The Hongkong and Shanghai Banking Corporation Limited	US\$116,666,667
Standard Chartered Bank	<u>US\$116,666,666</u>
Total	<u><u>US\$350,000,000</u></u>

The Purchase Agreement provides that the obligation of the Initial Purchasers to pay for and accept delivery of the Notes is subject to the approval of certain legal matters by its counsel and certain other conditions. The Initial Purchasers are committed to take and pay for all of the Notes if any are taken. After the initial offering, the offering price and other selling terms may be varied from time to time by the Initial Purchasers.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchasers may be required to make in respect thereof.

The Notes are a new issue of securities with no established trading market. Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. We have been advised by the Initial Purchasers that, in connection with the offering of the Notes, each Initial Purchaser may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Initial Purchasers may over allot the offering, creating a syndicate short position. In addition, the Initial Purchasers may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. Any of these activities may stabilize or maintain the market price of the Notes above independent market levels. The Initial Purchasers are not required to engage in these activities, and may end any of these activities at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes. These transactions may be effected in the over-the-counter market or otherwise.

The Notes have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States and may only be offered, sold or delivered outside the United States in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act. Until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act.

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be on or about the fifth business day following the pricing date of the Notes (this settlement cycle being referred to as “T+5”). Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or succeeding business days should consult their own legal advisor.

The Initial Purchasers have represented and agreed that (A) they have complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the Notes in, from or otherwise involving, the United Kingdom; and (B) they have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by them in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to them.

The Initial Purchasers have acknowledged that this offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Initial Purchasers have represented, warranted and agreed that they have not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will they 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 such Notes, 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.

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 Notes may not be circulated or distributed, nor may 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 SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; 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 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; or
- (4) as specified in Section 276(7) of the SFA.

The Initial Purchasers have represented and agreed that (1) they have not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the SFO (Cap. 571 of the Laws of Hong Kong) and any rules made thereunder; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance; and (2) they have not issued or had in their possession for the purposes of issue and will not issue or have in their possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO (Cap. 571 of the Laws of Hong Kong) and any rules made thereunder.

The Initial Purchasers have represented, warranted and undertaken that the Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "Financial Instruments and Exchange Law") and that they have not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other applicable laws and regulations of Japan.

The Initial Purchasers have represented and agreed that: (i) they shall not make any solicitation in connection with any offering of Notes in Italy; (ii) no copies of this offering memorandum or any other documents relating to the Notes will be distributed in Italy; and (iii) no Notes may be offered, sold or delivered in Italy.

The Initial Purchasers have represented and agreed that they have not offered or sold, and will not offer or sell any Notes in the Cayman Islands.

No action is being taken or is contemplated by us that would permit a public offering of the Notes or possession or distribution of any preliminary offering memorandum or offering memorandum or any amendment thereof, any supplement thereto or any other offering material relating to the Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

We have been advised that the Initial Purchasers presently intend to make a market in the Notes, as permitted by applicable laws and regulations. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any such market making may be discontinued at any time without prior notice at the sole discretion of the Initial Purchasers. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes.

The Initial Purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory, investment banking and commercial banking services, for us and our affiliates in the ordinary course of business and may be paid fees in connection with such services from time to time. See “Description of Material Indebtedness and Other Obligations.” We may from time to time enter into hedging or other derivative transactions, including swap agreements, future or forward contracts, option agreements or other similar arrangements, as part of our risk management strategy with the Initial Purchasers or their affiliates, which may include transactions relating to our obligations under the Notes all to the extent permitted under the Indenture. Our obligations under these transactions may be secured by cash or other collateral permitted under the Indenture.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (collectively, the “Securities”), 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 Securities have not been registered under the Securities Act or any other applicable securities laws;
 - the Securities are being offered for resale in transactions that do not require registration under the U.S. Securities Act or any other securities laws;
 - the Securities are being offered and sold only outside of the United States, to certain persons, other than U.S. persons, in offshore transactions in reliance on Rule 903 of Regulation S under the U.S. Securities Act; and
 - unless so registered, the Securities may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the U.S. 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 U.S. Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing the Securities 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 has made any representation to you with respect to us or the offering of the Securities, 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 Securities. You agree that you have had access to such financial and other information concerning us and the Securities as you have deemed necessary in connection with your decision to purchase the Securities including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the Securities 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 Securities 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 Securities, and each subsequent holder of the Securities by its acceptance of the Securities will agree, that until the end of the Resale Restriction Period (as defined below), the Securities may be offered, sold or otherwise transferred only:

- (a) to us;
- (b) under a registration statement that has been declared effective under the Securities Act;
- (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act; or
- (d) under any other available exemption from the registration requirements of the Securities Act, subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or account's control and in compliance with applicable state and other securities laws.

5. You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the date that is 40 days after the later of the closing date and the last date that we or any of our affiliates was the owner of the Securities or any predecessor of the Securities (the "Resale Restriction Period"), and will not apply after the applicable Resale Restriction Period ends;
- we and the Trustee reserve the right to require in connection with any offer, sale or other transfer of the Securities under clause (d) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee; and
- each note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES

ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR 398. THE ACCOUNT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

6. You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Securities is no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Securities as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

RATINGS

The Notes have been provisionally rated B+ by Standard & Poor's Ratings Services and B1 by Moody's Investors Service. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned a long-term corporate credit rating of BB – with a stable outlook by Standard and Poor's Rating Services, a corporate family rating of Ba3 with a stable outlook by Moody's Investors Service. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Sidley Austin as to matters of Hong Kong, United States federal and New York law and Conyers Dill & Pearman as to matters of Cayman Islands law and BVI law and Jingtian & Gongcheng as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchasers by Davis Polk & Wardwell as to matters of United States federal and New York law and Commerce & Finance Law Offices as to matters of PRC law.

INDEPENDENT ACCOUNTANT

Our consolidated financial statements as of and for the three years ended December 31, 2008, 2009 and 2010 included in this offering memorandum have been audited by Ernst & Young, certified public accountants, as stated in their reports appearing herein.

GENERAL INFORMATION

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 two 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 Systems

The Notes have been accepted for clearance through Euroclear and Clearstream with a Common Code of 060630984 for the Notes. The International Securities Identification Number is XS0606309846 for the Notes.

Listing of the Notes

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST. 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 Company, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Subsidiary Guarantors, the JV Subsidiary Guarantors or their respective subsidiaries or associated companies (if any).

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore where the Notes may be presented or surrendered for payment or redemption in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

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Page references included in the independent auditors' report and the consolidated financial statements for each of the years ended December 31, 2008, 2009 and 2010 set forth below refer to pages in our annual reports for the years ended December 31, 2008, 2009 and 2010, as the case may be. Those annual reports are not incorporated by reference herein and do not form part of this offering memorandum.

**INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010**



To the shareholders of KWG Property Holding Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of KWG Property Holding Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 46 to 126, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

18th Floor

Two International Finance Centre

8 Finance Street, Central

Hong Kong

10 March 2011

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2010

	Notes	<u>2010</u> RMB'000	<u>2009</u> RMB'000
REVENUE	5	7,465,911	4,266,572
Cost of sales		<u>(4,368,278)</u>	<u>(2,650,267)</u>
Gross profit		3,097,633	1,616,305
Other income and gains	5	78,893	49,265
Selling and marketing costs		(242,805)	(188,494)
Administrative expenses		(413,836)	(281,988)
Other operating expenses, net		(5,356)	(42,183)
Fair value gains on investment properties, net		3,869	60,587
Finance costs	7	(19,974)	(9,024)
Share of profits and losses of:			
Associates		(2,246)	(10)
Jointly-controlled entities		11,485	65,024
PROFIT BEFORE TAX	6	<u>2,507,663</u>	<u>1,269,482</u>
Income tax expenses	10	<u>(1,225,889)</u>	<u>(548,025)</u>
PROFIT FOR THE YEAR		<u><u>1,281,774</u></u>	<u><u>721,457</u></u>
Attributable to:			
Owners of the parent		1,281,772	720,078
Non-controlling interests		<u>2</u>	<u>1,379</u>
		<u><u>1,281,774</u></u>	<u><u>721,457</u></u>
Earnings per share attributable to owners of the parent			
— Basic and diluted	13	<u>RMB44 cents</u>	<u>RMB26 cents</u>

Details of the dividends proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2010

	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
PROFIT FOR THE YEAR	<u>1,281,774</u>	<u>721,457</u>
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	20,713	(32,985)
Share of exchange differences on translation of associates	10,885	—
Share of exchange differences on translation of jointly-controlled entities	<u>17,772</u>	<u>3,071</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>49,370</u>	<u>(29,914)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>1,331,144</u>	<u>691,543</u>
Attributable to:		
Owners of the parent	1,331,142	690,184
Non-controlling interests	<u>2</u>	<u>1,359</u>
	<u>1,331,144</u>	<u>691,543</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2010

	Notes	<u>2010</u> RMB'000	<u>2009</u> RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,343,901	981,508
Investment properties	15	3,461,980	3,501,460
Land use rights	16	866,274	572,833
Interests in associates	18	3,403,588	1,348,990
Interests in jointly-controlled entities	19	5,434,914	1,228,036
Deferred tax assets	29	<u>603,560</u>	<u>398,325</u>
Total non-current assets		<u>15,114,217</u>	<u>8,031,152</u>
CURRENT ASSETS			
Properties under development	20	13,730,027	13,951,102
Completed properties held for sale	21	2,553,758	2,300,415
Trade receivables	22	47,687	147,413
Prepayments, deposits and other receivables	23	1,679,437	453,039
Due from a jointly-controlled entity	19	46,155	46,999
Taxes recoverable	24(a)	59,450	24,492
Restricted cash	25	1,527,992	1,069,876
Cash and cash equivalents	25	<u>5,275,609</u>	<u>2,540,698</u>
Total current assets		<u>24,920,115</u>	<u>20,534,034</u>
CURRENT LIABILITIES			
Trade payables	26	1,670,898	1,415,470
Other payables and accruals	27	8,745,262	5,222,361
Due to associates	18	442,382	129,956
Due to a jointly-controlled entity	19	73,454	—
Interest-bearing bank and other borrowings	28	2,281,674	2,566,628
Taxes payable	24(b)	<u>2,217,971</u>	<u>1,418,808</u>
Total current liabilities		<u>15,431,641</u>	<u>10,753,223</u>
NET CURRENT ASSETS		<u>9,488,474</u>	<u>9,780,811</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>24,602,691</u>	<u>17,811,963</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	10,049,956	6,078,852
Deferred tax liabilities	29	669,168	624,788
Deferred revenue	30	700,000	700,000
Other non-current liabilities	31	<u>1,589,295</u>	—
Total non-current liabilities		<u>13,008,419</u>	<u>7,403,640</u>
NET ASSETS		<u>11,594,272</u>	<u>10,408,323</u>

		<u>2010</u>	<u>2009</u>
	Notes	RMB'000	RMB'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	280,485	280,538
Treasury shares	32(b)	—	(3,041)
Reserves	34(a)	10,985,534	9,982,514
Proposed final dividends	12	<u>318,247</u>	<u>144,658</u>
		11,584,266	10,404,669
Non-controlling interests		<u>10,006</u>	<u>3,654</u>
TOTAL EQUITY		<u><u>11,594,272</u></u>	<u><u>10,408,323</u></u>

Kong Jian Min
Director

Kong Jian Tao
Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2010**

	Notes	Attributable to owners of the parent										Non-controlling interests	Total equity
		Issued capital	Share premium account	Treasury shares reserve	Reserve funds	Exchange fluctuation reserve	Equity-settled share option reserve	Capital reserve	Retained profits	Proposed final dividends	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2009		254,093	5,321,931	—	189,345	(83,968)	—	—	2,709,489	77,813	8,468,703	722,508	9,191,211
Profit for the year		—	—	—	—	—	—	—	720,078	—	720,078	1,379	721,457
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		—	—	—	—	(32,965)	—	—	—	—	(32,965)	(20)	(32,985)
Share of exchange differences on translation of a jointly-controlled entity		—	—	—	—	3,071	—	—	—	—	3,071	—	3,071
Total comprehensive income for the year		—	—	—	—	(29,894)	—	—	720,078	—	690,184	1,359	691,543
Issue of shares	32(a)	26,445	1,322,250	—	—	—	—	—	—	—	1,348,695	—	1,348,695
Share issue expenses	32(a)	—	(25,469)	—	—	—	—	—	—	—	(25,469)	—	(25,469)
Repurchase of shares	32(b)	—	—	(3,041)	—	—	—	—	—	—	(3,041)	—	(3,041)
Acquisition of non-controlling interests	36(b)	—	—	—	—	—	—	2,216	—	—	2,216	(718,184)	(715,968)
Share option expenses	33	—	—	—	—	—	1,194	—	—	—	1,194	—	1,194
Dissolution of a subsidiary	36(c)	—	—	—	—	—	—	—	—	—	—	(2,029)	(2,029)
Final 2008 dividend declared		—	—	—	—	—	—	—	—	(77,813)	(77,813)	—	(77,813)
Transfer to reserves	34(a)	—	—	—	74,559	—	—	—	—	(74,559)	—	—	—
Proposed final 2009 dividend	12	—	—	—	—	—	—	—	—	(144,658)	144,658	—	—
At 31 December 2009		<u>280,538</u>	<u>6,618,712*</u>	<u>(3,041)</u>	<u>263,904*</u>	<u>(113,862)*</u>	<u>1,194*</u>	<u>2,216*</u>	<u>3,210,350*</u>	<u>144,658</u>	<u>10,404,669</u>	<u>3,654</u>	<u>10,408,323</u>
		Attributable to owners of the parent											
		Issued capital	Share premium account	Treasury shares reserve	Reserve funds	Exchange fluctuation reserve	Equity-settled share option reserve	Capital reserve	Retained profits	Proposed final dividends	Total	Non-controlling interests	Total equity
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010		280,538	6,618,712	(3,041)	263,904	(113,862)	1,194	2,216	3,210,350	144,658	10,404,669	3,654	10,408,323
Profit for the year		—	—	—	—	—	—	—	1,281,772	—	1,281,772	2	1,281,774
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		—	—	—	—	20,713	—	—	—	—	20,713	—	20,713
Share of exchange differences on translation of associates		—	—	—	—	10,885	—	—	—	—	10,885	—	10,885
Share of exchange differences on translation of jointly-controlled entities		—	—	—	—	17,772	—	—	—	—	17,772	—	17,772
Total comprehensive income for the year		—	—	—	—	49,370	—	—	1,281,772	—	1,331,142	2	1,331,144
Cancellation of shares	32(b)	(53)	(2,988)	3,041	—	—	—	—	—	—	—	—	—
Acquisition of non-controlling interests	36(b)	—	—	—	—	—	—	(26,350)	—	—	(26,350)	(3,650)	(30,000)
Contributions from non-controlling interests		—	—	—	—	—	—	—	—	—	—	10,000	10,000
Share option expenses	33	—	—	—	—	—	19,463	—	—	—	19,463	—	19,463
Final 2009 dividend declared		—	—	—	—	—	—	—	—	(144,658)	(144,658)	—	(144,658)
Transfer to reserves	34(a)	—	—	—	132,848	—	—	—	—	(132,848)	—	—	—
Proposed final 2010 dividend	12	—	—	—	—	—	—	—	—	(318,247)	318,247	—	—
At 31 December 2010		<u>280,485</u>	<u>6,615,724*</u>	<u>—</u>	<u>396,752*</u>	<u>(64,492)*</u>	<u>20,657*</u>	<u>(24,134)*</u>	<u>4,041,027*</u>	<u>318,247</u>	<u>11,584,266</u>	<u>10,006</u>	<u>11,594,272</u>

* These reserve accounts comprise the consolidated reserves of approximately RMB10,985,534,000 (2009: RMB9,982,514,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2010

	Notes	<u>2010</u> RMB'000	<u>2009</u> RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,507,663	1,269,482
Adjustments for:			
Finance costs	7	19,974	9,024
Share of profits and losses of associates		2,246	10
Share of profits and losses of jointly-controlled entities		(11,485)	(65,024)
Interest income	5	(33,483)	(7,066)
Loss on disposal of investment properties, net	6	4,573	40,086
Gain on disposal of items of property, plant and equipment	6	(147)	—
Depreciation	6	32,712	16,716
Amortisation of land use rights	6	1,415	810
Changes in fair values of investment properties, net	15	(3,869)	(60,587)
Equity-settled share options expenses	33	19,463	1,194
		<u>2,539,062</u>	<u>1,204,645</u>
Decrease in properties under development		891,723	546,742
Increase in completed properties held for sale		(253,343)	(766,011)
(Increase)/decrease in trade receivables		99,726	(116,700)
(Increase)/decrease in prepayments, deposits and other receivables		(1,227,506)	692,980
Decrease in an amount due from a jointly-controlled entity		844	3,315
Increase in restricted cash		(458,116)	(863,934)
Increase/(decrease) in trade payables		255,428	(1,165,043)
Increase in other payables and accruals		3,410,223	810,448
Increase in amounts due to associates		312,426	129,956
Cash generated from operations		<u>5,570,467</u>	<u>476,398</u>
Interest received		33,483	7,066
Interest paid		(663,258)	(486,963)
Corporate income tax paid		(433,192)	(332,235)
Land appreciation tax paid		(189,347)	(62,235)
Net cash flows from/(used in) operating activities		<u><u>4,318,153</u></u>	<u><u>(397,969)</u></u>

	Notes	<u>2010</u> RMB'000	<u>2009</u> RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(383,305)	(548,946)
Acquisition of land use rights		(304,885)	(61,988)
Proceeds from disposal of investment properties		49,500	77,254
Acquisition of subsidiaries	36(a)	(255)	(94,444)
Acquisition of jointly-controlled entities		(1,177,331)	—
Acquisition of non-controlling interests	36(b)	(30,000)	(715,968)
Dissolution of a subsidiary	36(c)	—	(2,029)
Proceeds from disposals of property, plant and equipment		1,048	—
Investments in associates		(705,000)	(499,000)
Investments in jointly-controlled entities		(1,449,693)	—
Advances to associates		(580,632)	—
Advances to jointly-controlled entities		(544,675)	(274,281)
Net cash flows used in investing activities		<u>(5,125,228)</u>	<u>(2,119,402)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32(a)	—	1,348,695
Proceeds from issue of senior notes		1,617,304	—
Share issue expenses	32(a)	—	(25,469)
Repurchase of shares	32(b)	—	(3,041)
New bank loans		6,179,194	5,471,033
Repayment of bank loans		(4,117,575)	(2,788,137)
Dividend paid		(144,658)	(77,813)
Contributions from non-controlling interests		10,000	—
Net cash flows from financing activities		<u>3,544,265</u>	<u>3,925,268</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		2,737,190	1,407,897
Cash and cash equivalents at beginning of year		2,540,698	1,167,009
Effect of foreign exchange rate changes, net		(2,279)	(34,208)
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		<u>5,275,609</u>	<u>2,540,698</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	2,066,704	2,502,996
Non-pledged time deposits with original maturity of less than three months when acquired	25	<u>3,208,905</u>	<u>37,702</u>
Cash and cash equivalents		<u>5,275,609</u>	<u>2,540,698</u>

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2010

	Notes	<u>2010</u> RMB'000	<u>2009</u> RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	248	294
Interests in subsidiaries	17	6,722,592	7,039,380
Advances to associates	18	1,888	—
Interests in jointly-controlled entities	19	1,663,596	—
Total non-current assets		<u>8,388,324</u>	<u>7,039,674</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	76,338	324
Cash and cash equivalents	25	444,394	181,433
Total current assets		<u>520,732</u>	<u>181,757</u>
CURRENT LIABILITIES			
Other payables and accruals	27	78,960	4,172
Due to a jointly-controlled entity	19	73,454	—
Total current liabilities		<u>152,414</u>	<u>4,172</u>
NET CURRENT ASSETS		<u>368,318</u>	<u>177,585</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>8,756,642</u>	<u>7,217,259</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	1,871,341	260,035
Total non-current liabilities		<u>1,871,341</u>	<u>260,035</u>
Net assets		<u>6,885,301</u>	<u>6,957,224</u>
EQUITY			
Issued capital	32	280,485	280,538
Treasury shares	32(b)	—	(3,041)
Reserves	34(b)	6,286,569	6,535,069
Proposed final dividends	12	318,247	144,658
Total equity		<u>6,885,301</u>	<u>6,957,224</u>

Kong Jian Min
Director

Kong Jian Tao
Director

NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2010

1. Corporate Information

KWG Property Holding Limited (“KWG Property” or the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to the “Group”) were involved in the following principal activities in the People’s Republic of China (the “PRC”):

- property development
- property investment
- hotel operation
- provision of property management services

In the opinion of the directors, the immediate and ultimate holding company of the Company is Plus Earn Consultants Limited, which is incorporated in the British Virgin Islands.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses with a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 Changes in Accounting Policy and Disclosures

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

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i>
HK(IFRIC) — Int 17	<i>Distributions of Non-cash Assets to Owners</i>
HKFRS 5 Amendments included in <i>Improvements to HKFRSs issued in October 2008</i>	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary</i>
<i>Improvements to HKFRSs 2009</i>	<i>Amendments to a number of HKFRSs issued in May 2009</i>
HK Interpretation 4 Amendment	<i>Amendments to HK Interpretation 4 Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HK Interpretation 5	<i>Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i>

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 5, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) *HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009 issued in May 2009*

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

HKAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

HKAS 17 Leases: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

(c) *HK Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The interpretation requires a term loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. This is irrespective of whether a default event has

occurred and notwithstanding any other terms and maturity stated in the loan agreement. The interpretation has had no impact on the financial position or results of operations of the Group.

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i> ⁴
HKFRS 9	<i>Financial Instruments</i> ⁵
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ³
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i> ¹
HK(IFRIC) — Int 14 Amendments	Amendments to HK(IFRIC) — Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ³
HK(IFRIC) — Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 July 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of amendments to HKFRS 3, HKAS 1 and HKAS 27 included in improvements to HKFRSs 2010 as further explained below, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- (a) *HKFRS 3 Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of 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. Other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) *HKAS 1 Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) *HKAS 27 Consolidation and Separate of Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and reporting policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture.
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Jointly-controlled operations

Joint venture arrangements which involve the use of the assets and other reserves of the Group and other parties, without the establishment of a separate entity, are referred to as jointly-controlled operations. Under this arrangement, assets remain under the ownership and control of each party. Revenue and expenses incurred in common are shared by the parties according to the contractual arrangement.

Assets that the Group controls and liabilities that it incurs in relation to jointly-controlled operations are recognised in the Group's consolidated statement of financial position on an accrual basis and are classified according to the nature of the items. The Group's share of the income that it earns from jointly-controlled operations, together with the expenses that it incurs, is included in the Group's consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to the Group.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Business combinations

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a

change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	3% to 5%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	10% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Assets under construction represent properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, amortised land use rights and capitalised borrowing costs on related borrowed funds during the period of construction. Assets under construction are reclassified to appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

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

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

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the

lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables, advances to associates and advances to/amounts due from jointly-controlled entities.

Subsequent measurement

The subsequent measurement of loans and receivables as follows:

Loans and receivables

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal

payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, amounts due to associates, an amount due to a jointly-controlled entity and interest-bearing bank and other borrowings and other non-current liabilities.

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of each reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair values of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial

instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. It is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset or over the benefits received by the Group related to such assets.

Revenue recognition

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

- (a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) hotel revenue from room rentals, food and beverage sales and other ancillary services when the services are rendered;
- (d) property management fee income, when the related management services have been provided; and
- (e) interest income, on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model (the "Model"), further details of which are given in note 33 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

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

Dividends

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

Foreign currencies

The Company's functional currency is in Hong Kong dollar while the presentation currency of these financial statements is in RMB. In the opinion of the directors, as the Group's operations are mainly in the PRC, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

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

Judgements

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

Operating lease commitments — Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after their completion, whereas, the properties are accounted for as assets under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held

for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to investment properties and are subject to revaluation at the end of each reporting period.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2010 was approximately RMB4,556,000 (2009: approximately RMB23,956,000). Further details are contained in note 29 to the financial statements.

Estimation uncertainty

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

Corporate income taxes

The Group is subject to corporate income taxes (“CIT”) in the PRC. As a result of the fact that certain matters relating to the corporate income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact on the CIT and tax provision in the period in which the differences realise.

PRC land appreciation taxes

The Group is subject to land appreciation taxes (“LAT”) in the PRC. The provision of land appreciation taxes is based on management’s best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual land appreciation tax liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the land appreciation tax expenses and the related provision in the period in which the differences realise.

Withholding tax arising from the distribution of dividends

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between

Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the jurisdictions is subject to judgement on the timing of the payment of the dividends. The Group considered that the applicable withholding tax rate is 5%.

Estimation of fair value of investment properties

Investment properties including completed investment properties and investment properties under construction are revalued at the end of each reporting period based on the appraised market value provided by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information from current prices in an active market for similar properties is considered and assumptions that are mainly based on market conditions existing at the end of each reporting period are used.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Recognition and allocation of construction cost on properties under development

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to completed properties held for sale upon completion. Apportionment of these costs will be recognised in the income statement upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

4. Segment Information

For management purposes, the Group is organised into four reportable operating segments as follows:

- (a) Property development: Sale of properties
- (b) Property investment: Leasing of properties
- (c) Hotel operation: Operation of a hotel
- (d) Property management: Provision of property management services

The property development projects undertaken by the Group during the year are all located in the PRC.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

The Group's revenue from external customers is derived solely from its operations in the PRC, and no non-current assets of the Group are located outside the PRC.

During the year, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Year ended 31 December 2010

	<u>Property development</u> RMB'000	<u>Property investment</u> RMB'000	<u>Hotel operation</u> RMB'000	<u>Property management</u> RMB'000	<u>Total</u> RMB'000
Segment revenue:					
Sales to external customers	7,221,143	124,178	56,914	63,676	7,465,911
Segment results	<u>2,670,347</u>	<u>122,184</u>	<u>7,842</u>	<u>255</u>	<u>2,800,628</u>
<i>Reconciliation:</i>					
Interest income and unallocated income					78,893
Unallocated expenses					(351,884)
Finance costs					(19,974)
Profit before tax					<u>2,507,663</u>
Income tax expenses					<u>(1,225,889)</u>
Profit for the year					<u>1,281,774</u>
Assets and liabilities:					
Segment assets	26,396,019	5,251,652	355,696	11,811	32,015,178
<i>Reconciliation:</i>					
Unallocated assets					<u>8,019,154</u>
Total assets					40,034,332
Segment liabilities	24,590,220	216,995	59,450	4,951	24,871,616
<i>Reconciliation:</i>					
Unallocated liabilities					<u>3,568,444</u>
Total liabilities					28,440,060
Other segment information:					
Depreciation and amortisation	13,186	2,573	18,181	187	34,127
Fair value gains on investment properties, net	—	3,869	—	—	3,869
Share of profits and losses of:					
Associates	(2,246)	—	—	—	(2,246)
Jointly-controlled entities	<u>11,485</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,485</u>

Year ended 31 December 2009

	<u>Property development</u> RMB'000	<u>Property investment</u> RMB'000	<u>Hotel operation</u> RMB'000	<u>Property management</u> RMB'000	<u>Total</u> RMB'000
Segment revenue:					
Sales to external customers	4,109,986	98,701	10,003	47,882	4,266,572
Segment results	<u>1,351,695</u>	<u>115,921</u>	<u>(837)</u>	<u>8,059</u>	<u>1,474,838</u>
<i>Reconciliation:</i>					
Interest income and unallocated income					49,265
Unallocated expenses					(245,597)
Finance costs					(9,024)
Profit before tax					1,269,482
Income tax expenses					(548,025)
Profit for the year					<u>721,457</u>
Assets and liabilities:					
Segment assets	19,248,106	4,651,704	364,874	5,072	24,269,756
<i>Reconciliation:</i>					
Unallocated assets					4,295,430
Total assets					28,565,186
Segment liabilities	15,193,704	205,117	70,219	1,557	15,470,597
<i>Reconciliation:</i>					
Unallocated liabilities					2,686,266
Total liabilities					18,156,863
Other segment information:					
Depreciation and amortisation	10,532	2,437	4,483	74	17,526
Fair value gains on investment properties, net	—	60,587	—	—	60,587
Share of profits and losses of:					
An associate	(10)	—	—	—	(10)
Jointly-controlled entities	65,024	—	—	—	65,024

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the gross proceeds, net of business tax, from the sale of properties, gross rental income received and receivable from investment properties, gross revenue from hotel operation and property management fee income during the year.

An analysis of revenue, other income and gains is as follows:

	Group	
	<u>2010</u> RMB'000	<u>2009</u> RMB'000
Revenue		
Sale of properties	7,221,143	4,109,986
Gross rental income	124,178	98,701
Hotel operation income	56,914	10,003
Property management fees	63,676	47,882
	<u>7,465,911</u>	<u>4,266,572</u>
Other income and gains		
Bank interest income	33,483	7,066
Foreign exchange differences, net	12,510	24,646
Others	32,900	17,553
	<u>78,893</u>	<u>49,265</u>

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	<u>2010</u> RMB'000	<u>2009</u> RMB'000
Cost of properties sold		4,368,412	2,636,989
Less: Government grant released	27(b)	<u>(50,675)</u>	<u>—</u>
		4,317,737	2,636,989
Depreciation	14	32,712	16,716
Amortisation of land use rights	16	14,116	6,576
Less: Amount capitalised in assets under construction		<u>(12,701)</u>	<u>(5,766)</u>
		<u>1,415</u>	<u>810</u>
Minimum lease payments under operating leases of land and buildings		6,072	4,175
Auditors' remuneration		4,000	3,800
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		198,037	130,409
Pension scheme contributions*		11,117	7,680
Equity-settled share option expense		16,821	757
Less: Amount capitalised in assets under construction, properties under development and investment properties under development		<u>(59,962)</u>	<u>(48,948)</u>
		<u>166,013</u>	<u>89,898</u>
Loss on disposal of investment properties, net**		4,573	40,086
Gain on disposal of items of property, plant and equipment		(147)	—
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		<u>21,948</u>	<u>19,057</u>

* At 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

** The loss on disposal of investment properties, net is included in "Other operating expenses, net" in the consolidated income statement.

7. Finance Costs

	<u>Group</u>	
	<u>2010</u> RMB'000	<u>2009</u> RMB'000
Interest on bank and other borrowings	704,116	456,589
Less: Interest capitalised	<u>(684,142)</u>	<u>(447,565)</u>
	<u>19,974</u>	<u>9,024</u>

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	<u>Group</u>	
	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Fees	2,522	2,376
Other emoluments:		
Salaries, allowances and benefits in kind	13,430	6,110
Equity-settled share option expense	2,642	437
Pension scheme contributions	440	224
	<u>16,512</u>	<u>6,771</u>
	<u>19,034</u>	<u>9,147</u>

For the year ended 31 December 2010, no directors were granted share options.

For the year ended 31 December 2009, certain directors were granted share options, in respect of their services to the Group, under the share option scheme (the "Scheme") of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

	<u>Fees</u>	<u>Equity-settled share option expense</u>	<u>Total remuneration</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
2010			
Independent non-executive directors:			
Mr. Lee Ka Sze, Carmelo	258	—	258
Mr. Dai Feng	258	—	258
Mr. Tam Chun Fai	258	—	258
	<u>774</u>	<u>—</u>	<u>774</u>
2009			
Independent non-executive directors:			
Mr. Lee Ka Sze, Carmelo	264	74	338
Mr. Dai Feng	264	74	338
Mr. Tam Chun Fai	264	73	337
	<u>792</u>	<u>221</u>	<u>1,013</u>

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

(b) Executive directors

	<u>Fees</u>	<u>Salaries, allowances and benefits in kind</u>	<u>Equity-settled share option expense</u>	<u>Pension scheme contributions</u>	<u>Total remuneration</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
2010					
Executive directors:					
Mr. Kong Jian Min	258	2,202	—	70	2,530
Mr. Kong Jian Tao	258	2,193	—	71	2,522
Mr. Kong Jian Nan	258	1,952	—	71	2,281
Mr. Li Jian Ming	258	1,510	697	71	2,536
Mr. Tsui Kam Tim	258	2,010	697	21	2,986
Mr. He Wei Zhi	258	2,109	697	65	3,129
Mr. Yu Yao Sheng	200	1,454	551	71	2,276
	<u>1,748</u>	<u>13,430</u>	<u>2,642</u>	<u>440</u>	<u>18,260</u>
2009					
Executive directors:					
Mr. Kong Jian Min	264	879	—	40	1,183
Mr. Kong Jian Tao	264	780	—	40	1,084
Mr. Kong Jian Nan	264	780	—	41	1,085
Mr. Li Jian Ming	264	1,104	72	41	1,481
Mr. Tsui Kam Tim	264	1,145	72	21	1,502
Mr. He Wei Zhi	264	1,422	72	41	1,799
	<u>1,584</u>	<u>6,110</u>	<u>216</u>	<u>224</u>	<u>8,134</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

9. Five Highest Paid Employees

The five highest paid employees for the year ended 31 December 2010 included four (2009: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2009: two) non-director, highest paid employee for the year are as follows:

	<u>Group</u>	
	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Salaries, allowances and benefits in kind	3,509	3,962
Equity-settled share option expense	2,302	285
Pension scheme contributions	21	19
	<u>5,832</u>	<u>4,266</u>

The number of non-director, highest paid employee whose emolument fell within the following bands is as follows:

	Number of employees	
	2010	2009
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,500,001 to HK\$3,000,000	—	1
HK\$6,500,001 to HK\$7,000,000	1	—
	<u>1</u>	<u>2</u>

No emoluments were paid by the Group to the directors or any of the non-director, highest paid employee as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil).

10. Income Tax Expenses

	Note	Group	
		2010 RMB'000	2009 RMB'000
Current — PRC			
CIT		692,592	428,578
LAT		<u>694,152</u>	<u>351,235</u>
		1,386,744	779,813
Deferred	29	<u>(160,855)</u>	<u>(231,788)</u>
Total tax charge for the year		<u>1,225,889</u>	<u>548,025</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax charge at the effective tax rate and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, is as follows:

	Group			
	2010		2009	
	RMB'000	%	RMB'000	%
Profit before tax	<u>2,507,663</u>		<u>1,269,482</u>	
At statutory income tax rate of 25% (2009: 25%)	626,916	25.0	317,371	25.0
Income not subject to tax	(466)	(0.1)	(6,912)	(0.5)
Expenses not deductible for tax	11,923	0.5	10,479	0.8
Effect of withholding tax on the distributable profits of the Company's PRC subsidiaries	56,753	2.2	(17,389)	(1.4)
Profits and losses attributable to associates	561	0.1	2	0.1
Profits and losses attributable to jointly- controlled entities	(2,871)	(0.1)	(16,256)	(1.3)
Land appreciation tax	694,152	27.7	351,235	27.6
Effect of land appreciation tax	(173,538)	(6.9)	(87,809)	(6.9)
Others	12,459	0.5	(2,696)	(0.2)
Tax charge at the Group's effective rate	<u>1,225,889</u>	<u>48.9</u>	<u>548,025</u>	<u>43.2</u>

For the year ended 31 December 2010, the share of CIT and LAT attributable to the jointly-controlled entities amounting to approximately RMB3,636,000 (2009: approximately RMB21,648,000) and approximately RMB4,329,000 (2009: approximately RMB18,983,000), respectively, is included in “Share of profits and losses of jointly-controlled entities” on the face of the consolidated income statement.

For the year ended 31 December 2010, the share of CIT credit attributable to the associates amounting to approximately RMB801,000 (2009: Nil), is included in “Share of profits and losses of associates” on the face of the consolidated income statement.

Hong Kong profits tax

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2010 and 2009.

PRC corporate income tax

PRC CIT in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the years ended 31 December 2010 and 2009, based on existing legislation, interpretations and practices in respect thereof.

PRC land appreciation tax

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

11. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of approximately RMB260,269,000 (2009: loss of approximately RMB23,862,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12. Dividends

	<u>2010</u>	<u>2009</u>
	RMB'000	RMB'000
Proposed final — RMB11 cents (2009: RMB5 cents) per ordinary share	<u>318,247</u>	<u>144,658</u>

The proposed final dividend for the year is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting.

13. Earnings Per Share Attributable to Owners of the Parent

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 2,893,150,000 (2009: approximately 2,735,117,000) in issue during the year.

No adjustment has been made to the basic earnings per share presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the share options outstanding during the years had an anti-dilutive effect on the basic earnings per share presented.

The calculation of basic and diluted earnings per share is based on:

	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Earnings		
Profit attributable to owners of the parent	<u>1,281,772</u>	<u>720,078</u>
	<u>Number of shares</u>	
	<u>2010</u>	<u>2009</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>2,893,150,000</u>	<u>2,735,117,000</u>

14. Property, Plant and Equipment

Group

	<u>Buildings</u>	<u>Leasehold</u>	<u>Plant and</u>	<u>Furniture,</u>	<u>Motor</u>	<u>Assets</u>	<u>Total</u>
	<u>RMB'000</u>	<u>improve-</u>	<u>machinery</u>	<u>fixtures and</u>	<u>vehicles</u>	<u>under</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>ments</u>	<u>RMB'000</u>	<u>office</u>	<u>RMB'000</u>	<u>construction</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>equipment</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2010							
At 31 December 2009 and 1 January 2010:							
Cost	424,132	1,727	3,188	31,953	36,358	525,686	1,023,044
Accumulated depreciation	<u>(13,861)</u>	<u>(1,548)</u>	<u>(2,773)</u>	<u>(10,051)</u>	<u>(13,303)</u>	—	<u>(41,536)</u>
Net carrying amount	<u>410,271</u>	<u>179</u>	<u>415</u>	<u>21,902</u>	<u>23,055</u>	<u>525,686</u>	<u>981,508</u>
At 1 January 2010, net of accumulated depreciation							
	410,271	179	415	21,902	23,055	525,686	981,508
Additions	13,794	1,271	—	5,087	16,010	359,844	396,006
Disposals	(790)	—	—	(2)	(109)	—	(901)
Depreciation provided during the year	<u>(20,955)</u>	<u>(535)</u>	<u>(246)</u>	<u>(6,607)</u>	<u>(4,369)</u>	—	<u>(32,712)</u>
At 31 December 2010, net of accumulated depreciation							
	<u>402,320</u>	<u>915</u>	<u>169</u>	<u>20,380</u>	<u>34,587</u>	<u>885,530</u>	<u>1,343,901</u>
At 31 December 2010:							
Cost	436,358	2,998	3,188	37,035	52,207	885,530	1,417,316
Accumulated depreciation	<u>(34,038)</u>	<u>(2,083)</u>	<u>(3,019)</u>	<u>(16,655)</u>	<u>(17,620)</u>	—	<u>(73,415)</u>
Net carrying amount	<u>402,320</u>	<u>915</u>	<u>169</u>	<u>20,380</u>	<u>34,587</u>	<u>885,530</u>	<u>1,343,901</u>

	<u>Buildings</u>	<u>Leasehold improve- ments</u>	<u>Plant and machinery</u>	<u>Furniture, fixtures and office equipment</u>	<u>Motor vehicles</u>	<u>Assets under construction</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2009							
At 1 January 2009:							
Cost	80,893	1,596	3,188	20,488	31,439	330,484	468,088
Accumulated depreciation	<u>(6,379)</u>	<u>(1,428)</u>	<u>(2,286)</u>	<u>(4,725)</u>	<u>(10,002)</u>	—	<u>(24,820)</u>
Net carrying amount	<u>74,514</u>	<u>168</u>	<u>902</u>	<u>15,763</u>	<u>21,437</u>	<u>330,484</u>	<u>443,268</u>
At 1 January 2009, net of accumulated							
depreciation	74,514	168	902	15,763	21,437	330,484	443,268
Additions	—	131	—	11,465	4,919	538,441	554,956
Transfers	343,239	—	—	—	—	(343,239)	—
Depreciation provided during the year	<u>(7,482)</u>	<u>(120)</u>	<u>(487)</u>	<u>(5,326)</u>	<u>(3,301)</u>	—	<u>(16,716)</u>
At 31 December 2009, net of accumulated							
depreciation	<u>410,271</u>	<u>179</u>	<u>415</u>	<u>21,902</u>	<u>23,055</u>	<u>525,686</u>	<u>981,508</u>
At 31 December 2009:							
Cost	424,132	1,727	3,188	31,953	36,358	525,686	1,023,044
Accumulated depreciation	<u>(13,861)</u>	<u>(1,548)</u>	<u>(2,773)</u>	<u>(10,051)</u>	<u>(13,303)</u>	—	<u>(41,536)</u>
Net carrying amount	<u>410,271</u>	<u>179</u>	<u>415</u>	<u>21,902</u>	<u>23,055</u>	<u>525,686</u>	<u>981,508</u>

Company

	<u>Furniture, fixtures and office equipment</u> RMB'000	<u>Motor vehicles</u> RMB'000	<u>Total</u> RMB'000
31 December 2010			
At 31 December 2009 and 1 January 2010:			
Cost	48	482	530
Accumulated depreciation	<u>(36)</u>	<u>(200)</u>	<u>(236)</u>
Net carrying amount	<u>12</u>	<u>282</u>	<u>294</u>
At 1 January 2010, net of accumulated depreciation	12	282	294
Additions	53	—	53
Depreciation provided during the year	<u>(14)</u>	<u>(85)</u>	<u>(99)</u>
At 31 December 2010, net of accumulated depreciation	<u>51</u>	<u>197</u>	<u>248</u>
At 31 December 2010:			
Cost	101	482	583
Accumulated depreciation	<u>(50)</u>	<u>(285)</u>	<u>(335)</u>
Net carrying amount	<u>51</u>	<u>197</u>	<u>248</u>
31 December 2009			
At 1 January 2009:			
Cost	48	482	530
Accumulated depreciation	<u>(22)</u>	<u>(111)</u>	<u>(133)</u>
Net carrying amount	<u>26</u>	<u>371</u>	<u>397</u>
At 1 January 2009, net of accumulated depreciation	26	371	397
Depreciation provided during the year	<u>(14)</u>	<u>(89)</u>	<u>(103)</u>
At 31 December 2009, net of accumulated depreciation	<u>12</u>	<u>282</u>	<u>294</u>
At 31 December 2009:			
Cost	48	482	530
Accumulated depreciation	<u>(36)</u>	<u>(200)</u>	<u>(236)</u>
Net carrying amount	<u>12</u>	<u>282</u>	<u>294</u>

At 31 December 2010, certain of the Group's property, plant and equipment with an aggregate net carrying amount of approximately RMB786,312,000 (2009: approximately RMB778,633,000) were pledged to secure general banking facilities granted to the Group (note 38(a)).

At 31 December 2009, the Group was in the process of obtaining the real estate ownership certificates of the Group's buildings with an aggregate net carrying amount of approximately RMB338,949,000 from the relevant government authorities.

15. Investment Properties

Group

	2010			2009		
	Completed investment properties	Investment property under construction	Total	Completed investment properties	Investment property under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	3,431,260	70,200	3,501,460	3,546,400	—	3,546,400
Transfers from properties under development — adoption of Improvements to HKFRSs	—	—	—	—	11,813	11,813
Additions	—	10,724	10,724	—	—	—
Transfers	80,924	(80,924)	—	—	—	—
Disposals	(54,073)	—	(54,073)	(117,340)	—	(117,340)
Gain from a fair value adjustment	3,869	—	3,869	2,200	58,387	60,587
Carrying amount at 31 December	<u>3,461,980</u>	<u>—</u>	<u>3,461,980</u>	<u>3,431,260</u>	<u>70,200</u>	<u>3,501,460</u>

The Group's investment properties are situated in the PRC and the related land is held under the lease terms of 10 to 50 years.

The Group's investment properties were revalued on 31 December 2010 by CB Richard Ellis Limited, independent professionally qualified valuers, at approximately RMB3,461,980,000 (2009: approximately RMB3,501,460,000) on an open market, existing use basis. Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a). The gross rental income received and receivable by the Group and the direct expenses in respect of these investment properties are summarised as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Gross rental income	124,178	98,701
Direct expenses	(21,948)	(19,057)
Net rental income	<u>102,230</u>	<u>79,644</u>

At 31 December 2010, the Group's investment properties with an aggregate carrying amount of approximately RMB2,871,337,000 (2009: approximately RMB3,046,504,000) were pledged to secure general banking facilities granted to the Group (note 38(a)).

At 31 December 2010, the Group was in the process of obtaining the real estate ownership certificate of the Group's investment property with a net carrying amount of approximately RMB69,530,000 (2009: RMB70,200,000) from the relevant government authorities.

Further particulars of the Group's major investment properties are included on page 127 of the annual report.

16. Land Use Rights

	Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	586,851	553,256
Additions	307,655	40,171
Amortisation recognised during the year	(14,116)	(6,576)
At 31 December	880,390	586,851
Current portion included in prepayments, deposits and other receivables	(14,116)	(14,018)
Non-current portion	866,274	572,833

The Group's land use rights are located in the PRC and held under the lease terms of 10 to 50 years.

Certain of the Group's land use rights with an aggregate net carrying amount of approximately RMB182,406,000 (2009: approximately RMB210,323,000) were pledged to banks to secure general banking facilities granted to the Group (note 38(a)).

At 31 December 2010, the Group is in the process of obtaining the land use right certificates of certain lands with an aggregate net carrying amount of approximately RMB310,829,000 (2009: approximately RMB20,319,000) from the relevant government authorities. The Group has not fully settled the purchase considerations in accordance with the terms of the relevant land use rights grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payments of the purchase considerations.

17. Interests in Subsidiaries

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	300,306	300,306
Due from subsidiaries	6,415,161	6,738,406
Capital contribution in respect of employee share-based compensation	7,125	668
	6,722,592	7,039,380

The amounts due from subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Happy Clear Consultants Limited β	British Virgin Islands/ Hong Kong	US\$1,000	100	—	Investment holding
Reach Luck Consultants Limited β	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Boom Faith International Limited β	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Rising Wave Enterprises Limited β	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Good Excel Enterprises Limited β	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Prime Way Enterprises Limited β	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Hugeluck Investments Limited β	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Guangzhou Hejing Real Estate Development Limited (“Guangzhou Hejing”)* β	PRC	US\$99,000,000	—	100	Property development
Guangzhou Hejing Meifu Real Estate Development Limited β	PRC	US\$12,930,000	—	100	Property development
Guangzhou Hejing Yingfu Real Estate Development Limited β	PRC	RMB35,000,000	—	100	Property development
Guangzhou Xinhengchang Enterprise Development Limited* β	PRC	RMB792,000,000	—	100	Property development
Guangzhou Zhongtianying Real Estate Development Limited* β	PRC	US\$198,000,000	—	100	Property development
Guangzhou Tianjian Real Estate Co., Ltd* β	PRC	RMB1,617,000,000	—	100	Property development
Guangzhou Fuxin Property Management Limited* β	PRC	RMB7,000,000	—	100	Property management
Guangzhou Ningjun Property Management Limited* β	PRC	RMB7,000,000	—	100	Property management
Guangzhou Junzhao Property Operation Limited* β	PRC	RMB7,000,000	—	100	Property management
Chengdu Zhongtianying Real Estate Development Limited β	PRC	RMB550,000,000	—	100	Property development
Guangzhou Liangyu Investment Limited (“Guangzhou Liangyu”)* β	PRC	RMB30,000,000	—	100	Property development
Hainan New World Property Development (HK) Limited* β	PRC	HK\$166,400,000	—	100	Property development

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Suzhou Hejing Real Estate Development Limited (“Suzhou Hejing”)#β	PRC	RMB990,000,000	—	100	Property development
Guangzhou Conghua Hejing Real Estate Development Limited (“Guangzhou Conghua Hejing”)*#β	PRC	US\$99,000,000	—	100	Property development
Beijing Hejing Real Estate Development Limited (“Beijing Hejing”)#β	PRC	RMB70,000,000	—	100	Property development
Chengdu Zhaojing Real Estate Development Limited*#β	PRC	HK\$767,000,000	—	100	Property development
Kunshan Baicheng Real Estate Development Limited*#β	PRC	US\$29,900,000	—	100	Property development
Guangzhou Hejing Chuangzhan Hotel Limited#β	PRC	RMB30,000,000	—	100	Hotel operation
Guangzhou Wanhui Real Estate Development Limited (“Guangzhou Wanhui”) #β(i)	PRC	RMB330,000,000	—	100	Property development
Guangzhou Lihe Property Development Limited (“Guangzhou Lihe”)#β	PRC	RMB640,000,000	—	100	Property development
Chengdu Kaiyu Property Development Limited#^β	PRC	RMB100,000,000	—	100	Property development
Tianjin Hejing Property Development Limited#^β	PRC	RMB50,000,000	—	100	Property development
Hainan Hejing Property Development Limited#^β	PRC	RMB100,000,000	—	100	Property development
Shanghai Hejing Real Estate Development Company Limited (“Shanghai Hejing”)#^β(ii)	PRC	RMB100,000,000	—	100	Property development
Shanghai Zhongdao Real Estate Development Limited#^β	PRC	RMB100,000,000	—	90	Property development

* These entities are registered as wholly-foreign-owned enterprises under PRC law.

β The statutory financial statements of these subsidiaries are not audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network.

The English names of these companies referred to in these financial statements represent management’s best effort to translate the Chinese names of those companies, as no English names have been registered.

^ These companies were newly established during the year.

Note:

- (i) Guangzhou Wanhui was a wholly-owned subsidiary of Guangzhou Hejing (a subsidiary of the Group) established on 26 October 2009 in the PRC with registered capital of RMB30,000,000. Guangzhou Wanhui is a company engaged in a property development project in Guangzhou, namely D3-4 Project. In January 2010, CITIC Trust Co., Ltd. (“CITIC”) and Guangzhou Hejing entered into an equity transfer agreement (the “Equity Transfer Agreement”) whereby Guangzhou Hejing uses its 100% equity interest in Guangzhou Wanhui as consideration to acquire for the S1 type unit trust (“S1 Unit”) under a trust administrated by CITIC (the “CITIC Trust”). Guangzhou Hejing also uses its RMB135,000,000 debt receivable from Guangzhou Wanhui as a consideration to acquire for S2 type unit (“S2 Unit”) of the CITIC Trust. The terms of the Trust is 18 months, while CITIC can early terminate the CITIC Trust after 1 year. The CITIC Trust consists of three types of trust units, including 30,000,000 units of S1 Unit, 135,000,000 units of S2 Unit and 300,000,000 units of priority units. The subscription price for each unit of the CITIC Trust is RMB1. The priority units are sold to the public investors in the PRC. Priority units are entitled to a return calculated based on the amount invested, the number of days invested and a pre-determined return rate. Upon dissolution of the CITIC Trust, beneficiaries of S1 Unit and S2 Unit are subordinate to those of priority units in receiving CITIC Trust income and assets distribution of the CITIC Trust. After the distribution of the principal amount and pre-determined return of the priority units, and miscellaneous legal and administrative expenses, S1 Unit and S2 Unit can enjoy the residual benefit of the CITIC Trust. CITIC can decide the form of assets to be distributed to S1 Unit and S2 Unit (either in cash or other assets), particularly, CITIC may distribute the RMB135,000,000 receivable balance from Guangzhou Wanhui to S2 Unit holders. S1 Unit and S2 Unit are not transferrable, except within the Group.

CITIC, as trustee, applied the fund from the CITIC Trust to inject RMB300,000,000 into Guangzhou Wanhui as registered capital. The registered capital of Guangzhou Wanhui was then increased to RMB330,000,000 and CITIC held 100% equity interest in Guangzhou Wanhui (the “Equity Interest”) after such capital injection (the “Capital Injection”).

Pursuant to the Equity Transfer Agreement, Guangzhou Hejing has the pre-emptive right (the “Pre-emptive Right”) to acquire the Equity Interest from CITIC, and Guangzhou Hejing agrees to pay CITIC, the fee (“Pre-emptive Right Fee”) to maintain its Pre-emptive Right.

Upon 18 months after the effective date of the Equity Transfer Agreement, pursuant to the Equity Transfer Agreement, Guangzhou Hejing can acquire the Equity Interest from CITIC should all the following conditions be met:

- (a) Guangzhou Hejing has promptly paid the Pre-emptive Right Fee and the consideration for acquisition of Equity Interest (the “Consideration”) in full;
- (b) The relevant guarantee agreements as mentioned in the Equity Transfer Agreement are effective and remain effective (such guarantee agreements mainly include the corporate guarantee provided by KWG and the pledge of Guangzhou Hejing’s 94.5% equity interest in one of its subsidiary, Guangzhou Liangyu, for Guangzhou Hejing’s fulfillment of its obligations as mentioned in the Equity Transfer Agreement);
- (c) Relevant agreements entered into between CITIC and Guangzhou Hejing and the guarantors pursuant to the Equity Transfer Agreement are effective and remain effective, and there is no material breach of the contracts; and
- (d) Application for transfer of relevant land use rights under D3-4 Project to Guangzhou Wanhui has been submitted to relevant government bureau within 60 business days after the effective date of the Equity Transfer Agreement (the transfer of relevant land use rights has been completed in March 2010).

Furthermore, Guangzhou Hejing can early exercise its Pre-emptive Right upon 12 months after the effective date of the Equity Transfer Agreement, provided that all the above four conditions have been met.

Within the above timeframe, if (a) the above conditions have not been met; or (b) Guangzhou Hejing has not notified CITIC in written form to exercise its Pre-emptive Right; or (c) Guangzhou Hejing defaults on the payment of the Consideration and the Pre-emptive Right Fee, then CITIC can issue a written notice to Guangzhou Hejing to request Guangzhou Hejing to acquire the Equity Interest and settle the Consideration and the Pre-emptive Right Fee within 3 days.

If (a) Guangzhou Hejing notifies CITIC, in written form, that it would not acquire the Equity Interest; or (b) Guangzhou Hejing defaults to settle the Consideration and the Pre-emptive Right Fee within 3 days, then the Pre-emptive Right is forfeited and CITIC can sell the Equity Interest to others.

CITIC can request Guangzhou Hejing to unconditionally acquire the Equity Interest if any of the following conditions exists:

- (a) Guangzhou Hejing delays on the payment of the Pre-emptive Right Fee and still cannot fully settle the Pre-emptive Right Fee within 3 days after issuance of demand notice from CITIC;
- (b) Guangzhou Hejing has not requested CITIC to sell the Equity Interest to Guangzhou Hejing within 18 months after the effective date of the Equity Transfer Agreement;
- (c) The guarantee agreements as stipulated in the Equity Transfer Agreement are not effective;
- (d) Application for transfer of certain land use rights to Guangzhou Wanhui has not been submitted to relevant government bureau within 60 business days after the effective date of the Equity Transfer Agreement;
- (e) The title of the relevant land use right certificates under D3-4 Project cannot be transferred to Guangzhou Wanhui within 11 months after the effective date of the Equity Transfer Agreement;
- (f) Within 18 months after the effective date of the Equity Transfer Agreement, Guangzhou Wanhui has no retained earnings for distribution or the amount of retained earnings available for distribution is less than RMB330,000,000; or
- (g) 18 months lapses after the effective date of the Equity Transfer Agreement.

Further to the Equity Transfer Agreement, CITIC, Guangzhou Hejing and Industrial and Commercial Bank of China — Guangzhou Branch (“ICBC (Guangzhou)”) entered into an agreement (the “Entrustment Agreement”) in January 2010, whereby CITIC entrusted (a) Guangzhou Hejing to operate and manage the Equity Interest; and (b) ICBC (Guangzhou) to safeguard the land use rights and other relevant certificates of D3-4 Project.

Upon the completion of the Capital Injection, Guangzhou Wanhui continues to be a subsidiary of the Company as the Company has unilateral control over Guangzhou Wanhui.

- (ii) This company is also known as Shanghai KWG Real Estate Development Co., Ltd. in the Company’s announcement dated 20 January 2011.

In the current year, the Group acquired Guangzhou Hengjian Construction Limited (“Guangzhou Hengjian”). Further details of this acquisition are included in note 36(a) to the financial statements.

In the prior year, the Group acquired Guangzhou Lihe. Further details of this acquisition are included in notes 30 and 36(a) to the financial statements.

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

18. Interests in Associates/Balances with Associates

	<u>Group</u>	
	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Share of net assets	2,822,956	1,348,990
Advances to associates	<u>580,632</u>	<u>—</u>
	<u><u>3,403,588</u></u>	<u><u>1,348,990</u></u>

	<u>Company</u>	
	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Advances to associates	<u>1,888</u>	<u>—</u>

The amounts due to associates included in the Group's current liabilities of approximately RMB442,382,000 (2009: approximately RMB129,956,000) are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal associates are as follows:

<u>Name</u>	<u>Particulars of issued shares held</u>	<u>Place of registration</u>	<u>Percentage of ownership interest attributable to the Group</u>	<u>Principal activity</u>
Suzhou City Kaiyu Real Estate Development Company Limited (“Suzhou Kaiyu”)#β (i)	Registered capital of RMB1 each	PRC	29.94%	Property development
Lyntondale Holdings Limitedβ (ii)	Registered capital of US\$1 each	British Virgin Islands	20.00%	Investment holding
Foshan City Xinsheng Real Estate Development Company Limited (“Foshan Xinsheng”)#β (ii)	Registered capital of RMB1 each	PRC	20.00%	Property development
Foshan City Xinfeng Real Estate Development Company Limited (“Foshan Xinfeng”)#β (ii)	Registered capital of RMB1 each	PRC	20.00%	Property development
Foshan City Xinjin Real Estate Development Company Limited (“Foshan Xinjin”)#β (ii)	Registered capital of RMB1 each	PRC	20.00%	Property development
Bonserry Investments Limitedβ (ii)	Ordinary shares of US\$1 each	British Virgin Islands	20.00%	Investment holding

<u>Name</u>	<u>Particulars of issued shares held</u>	<u>Place of registration</u>	<u>Percentage of ownership interest attributable to the Group</u>	<u>Principal activity</u>
Foshan City Xinjun Real Estate Development Company Limited (“Foshan Xinjun”)#β (ii)	Registered capital of RMB1 each	PRC	20.00%	Property development
Foshan City Xinhao Real Estate Development Company Limited (“Foshan Xinhao”)#β (ii)	Registered capital of RMB1 each	PRC	20.00%	Property development
Foshan City Xinhui Real Estate Development Company Limited (“Foshan Xinhui”)#β (ii)	Registered capital of RMB1 each	PRC	20.00%	Property development
Foshan City Xinjing Real Estate Development Company Limited (“Foshan Xinjing”)#β (ii)	Registered capital of RMB1 each	PRC	20.00%	Property development
Shanghai Jingdong Property Development Limited (“Shanghai Jingdong”)#β (iii)	Registered capital of RMB1 each	PRC	52.21%	Property development

The English names of these companies referred to in these financial statements represent management’s best effort to translate the Chinese names of these companies, as no English names have been registered.

β Not audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network.

The above investments in associates are indirectly held by the Company through wholly-owned subsidiaries.

Note:

- (i) On 24 December 2009, China Construction Bank Corporation - Suzhou Branch (“CCB (Suzhou)”) (as settler and beneficiary) and Jiangxi International Trust Co., Ltd. (“Jiangxi International”) (as the trustee) entered into a trust agreement (the “Trust Agreement”) where a trust (the “CCB Trust”) was set up with a maximum trust capital (the “Trust Capital”) of RMB901,000,000, which comprises 901,000,000 trust units of RMB1 each. Pursuant to the terms of the Trust Agreement, the Trust Capital shall be used to increase the registered capital of Suzhou Kaiyu, a non-wholly-owned subsidiary established by the Group in December 2009 to engage in a property development project in Xiaoxinqu, Suzhou. The Trust Capital was raised through the sale of an investment product (the “RMB Financing Product”) by CCB (Suzhou). The RMB Financing Product comprises 900,000,000 senior trust units (“CCB Senior Units”) and 1,000,000 junior trust units (“CCB Junior Units”), both at a subscription price of RMB1 each unit. All CCB Senior Units are open for subscription by the public and all CCB Junior Units were subscribed by Suzhou Hejing. The term of the RMB Financing Product is 1.5 years starting from the date when the CCB Trust was established (the “Trust Establishment Date”), which is 24 December 2009, subject to early termination upon the occurrence of certain events. Early redemption of the CCB Senior Units or CCB Junior Units is not allowed.

In connection with the CCB Trust, the following agreements were entered into on 24 December 2009:

- (a) The Trustee, Suzhou Hejing and Suzhou Jinzhu Property Development Co., Ltd. (“Suzhou Jinzhu”) entered into a capital increase agreement (the “Capital Increase Agreement”), pursuant to which the registered capital of Suzhou Kaiyu was increased from RMB400,000,000 to RMB1,500,000,000 by the capital injection (the “Capital Injection”) of (i) RMB901,000,000 by the Trustee; (ii) RMB89,000,000 by Suzhou Hejing; and (iii) RMB110,000,000 by Suzhou Jinzhu. Immediately before the completion of the Capital Injection, Suzhou Kaiyu is owned as to 90% and 10% by Suzhou Hejing and Suzhou Jinzhu, respectively. Upon completion of the Capital Injection, Suzhou Kaiyu is owned as to 60.06%, 29.94% and 10.00% by the CCB Trust, Suzhou Hejing and Suzhou Jinzhu, respectively.
- (b) Suzhou Hejing and CCB (Suzhou) entered into a product units option agreement (the “Product Units Option Agreement”), pursuant to which CCB (Suzhou) is entitled to exercise an option requiring Suzhou Hejing to acquire all the CCB Senior Units at a consideration equivalent to an amount determined as “Number of CCB Senior Units of RMB1 each X (1 + 11.5% X number of investment days in the CCB Senior Units/360)” (the “Transfer Fee”), to CCB (Suzhou) upon the occurrence of certain material adverse events (the “Material Adverse Events”). If no Material Adverse Event occurs, Suzhou Hejing is entitled to acquire all the CCB Senior Units upon expiry of one year after the Trust Establishment Date. Suzhou Hejing should complete the acquisition of all the CCB Senior Units and pay the remaining consideration no later than one day before the expiry of 1.5 years after the Trust Establishment Date.
- (c) Suzhou Hejing and CCB (Suzhou) entered into a pledge agreement (the “Pledge Agreement”), pursuant to which Suzhou Hejing pledged all its equity interest in Suzhou Kaiyu to CCB (Suzhou) to secure the performance and obligations of Suzhou Hejing under the Product Units Option Agreement as mentioned in (b) above.
- (d) The Company and Guangzhou Hejing, a wholly-owned subsidiary of the Group entered into guarantee agreements (the “Guarantee Agreements”) with CCB (Suzhou), pursuant to which the Company and Guangzhou Hejing provided guarantees to CCB (Suzhou) to secure the performance and obligations of Suzhou Hejing under the Product Units Option Agreement as mentioned in (b) above.
- (e) The trustee, CCB (Suzhou), Suzhou Hejing, Suzhou Jinzhu and Suzhou Kaiyu entered into a supervision agreement (the “Supervision Agreement”), pursuant to which the Trust Capital should be deposited to the custodian bank account maintained with and managed by CCB (Suzhou) in accordance with the Supervision Agreement.

Upon the completion of the capital injection, Suzhou Kaiyu became an associate of the Group as the Group has no unilateral control over Suzhou Kaiyu, but is able to exercise significant influence over Suzhou Kaiyu.

- (ii) On 17 March 2010, the Group entered into two cooperation agreements with Sun Hung Kai Development (China) Limited (“SHK”) for the acquisition of 20% equity interest in Lyntondale Holdings Limited which holds 100% equity interests in Foshan Xinseng, Foshan Xinfeng and Foshan Xinjin, and 20% equity interest in Bonserry Investments Limited which holds 100% equity interests in Foshan Xinjun, Foshan Xinhao, Foshan Xinhui and Foshan Xinjing. Further details of the acquisitions are included in the announcement of the Company dated 17 March 2010.
- (iii) Guangzhou Hejing holds a project company, Shanghai Jingdong with injected capital of RMB50,000,000 through its wholly-owned subsidiary, Guangzhou City Wanjing Property Development Limited (“Guangzhou Wanjing”), and Shanghai Hejing with 50% equity interest each. The purpose for setting up of Shanghai Jingdong is for the development of a property project in Shanghai.

On 29 September 2010, Guangzhou Hejing, Shanghai Hejing and Guangzhou Wanjing entered into an co-operation agreement (the “New China Co-operation Agreement”) with New China Trust Company Limited (“New China Trust”), pursuant to which, New China Trust has agreed to inject RMB650,000,000 to Guangzhou Wanjing as share capital. Upon the completion of the capital injection, Guangzhou Hejing’s equity interest in Guangzhou Wanjing was diluted to 4.41% and New China Trust became a 95.59% shareholder of Guangzhou Wanjing. Such equity interest held by New China Trust was transferred to a trust scheme (the “New China Trust Scheme”), which is set up and managed by New China Trust. The funds raised by New China Trust of RMB650,000,000 from the senior unit investors of New China Trust Scheme was then injected into Shanghai

Jingdong as share capital through Guangzhou Wanjing. At the same time, Shanghai Hejing injected cash of RMB650,000,000 to Shanghai Jingdong as share capital. Accordingly, the increase in share capital in Shanghai Jingdong of RMB1,300,000,000 included RMB650,000,000 from New China Trust and RMB650,000,000 from Shanghai Hejing. Upon the completion of the New China Co-operation Agreement, the Group effectively held 52.21% equity interest in Shanghai Jingdong. The remaining 47.79% effective equity interest in Shanghai Jingdong was held by the New China Trust Scheme through its equity interest in Guangzhou Wanjing.

Although the Group holds 4.41% equity interest in Guangzhou Wanjing and 52.21% equity interest in Shanghai Jingdong, the Group is not able to control the board of directors in both Guangzhou Wanjing and Shanghai Jingdong even though the Group can appoint majority of the board members in Guangzhou Wanjing and Shanghai Jingdong, as New China Trust has the veto power to disapprove the major decisions in the board meeting of Guangzhou Wanjing and Shanghai Jingdong. Since the Group had lost control but retained significant influences on the decisions of Guangzhou Wanjing and Shanghai Jingdong, Guangzhou Wanjing and Shanghai Jingdong became associates of the Group.

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

The following table illustrates the summarised financial information of the Group's associates:

	<u>2010</u>	<u>2009</u>
	RMB'000	RMB'000
Assets	6,894,131	1,694,367
Liabilities	(3,993,553)	(194,400)
Revenue	868	—
Expense	<u>(9,682)</u>	<u>(33)</u>

19. Interests in Jointly-controlled Entities/Balances with Jointly-controlled Entities

	<u>Group</u>	
	<u>2010</u>	<u>2009</u>
	RMB'000	RMB'000
Share of net assets	3,750,785	88,582
Advances to jointly-controlled entities	<u>1,684,129</u>	<u>1,139,454</u>
	<u>5,434,914</u>	<u>1,228,036</u>
	<u>Company</u>	
	<u>2010</u>	<u>2009</u>
	RMB'000	RMB'000
Interests in jointly controlled entities	1,250,786	—
Advances to jointly-controlled entities	<u>412,810</u>	—
	<u>1,663,596</u>	—

The advances to jointly-controlled entities are unsecured, interest-free and not repayable within 12 months.

The amount due from a jointly-controlled entity included in the Group's current assets of approximately RMB46,155,000 (2009: approximately RMB46,999,000) is unsecured, interest-free and has no fixed term of repayment.

The amount due to a jointly-controlled entity included in the Group and the Company's current liabilities of approximately RMB73,454,000 (2009: Nil) is unsecured, interest-free and has no fixed term of repayment.

Particulars of the principal jointly-controlled entities are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Guangzhou Weibai Real Estate Development Limited#β	Registered capital of RMB1 each	PRC	50	50	50	Property development
Precious Wave Investments Limitedβ	Ordinary shares of US\$1 each	British Virgin Islands	50	50	50	Investment holding
Quality Express Limitedβ	Ordinary shares of HK\$1 each	Hong Kong	50	50	50	Investment holding
Guangzhou Fujing Real Estate Development Limited#β	Registered capital of HK\$1 each	PRC	33.3	33.3	33.3	Property development
Shanghai Zhendong Real Estate Company Limited#β	Registered capital of RMB1 each	PRC	50	50	50	Property development
Tianjin Jinnan New Town Property Development Company Limited ("Tianjin Jinnan")#β (i)	Registered capital of RMB1 each	PRC	25	25	25	Property development
Tianjin He'an Investments Limited ("Tianjin He'an") #β(i)	Registered capital of RMB1 each	PRC	25	25	25	Property development
Shanghai Chengtou Yuecheng Real Estate Company Limited ("Shanghai Chengtou Yuecheng")#β(ii)	Registered capital of RMB1 each	PRC	35	35	35	Property development
Chengdu City Hongyu Real Estate Development Limited#β(iii)	Registered capital of RMB1 each	PRC	50	50	50	Property development
Great Command Investments Limitedβ	Ordinary shares of HK\$1 each	Hong Kong	28.6	28.6	28.6	Investment holding
Total Champ Limitedβ	Ordinary shares of HK\$1 each	Hong Kong	28.6	28.6	28.6	Investment holding

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of these companies, as no English names have been registered.

β Not audited by Ernst & Young Hong Kong or another member of the Ernst & Young global network.

Note:

- (i) On 25 August 2010, Beijing Hejing, entered into a shareholders' agreement with three independent third parties (collectively the "4 Parties"), for the development of a property project in Tianjin by setting up a project company, Tianjin Jinnan. Each of the 4 Parties held 25.00% equity interest to Tianjin Jinnan upon the execution of the shareholders' agreement and the Tianjin Jinnan is considered as a jointly-controlled entity held by Beijing Hejing. Further details of the acquisition are included in the Company's announcement dated 25 August 2010.

On 17 September 2010, the 4 Parties entered into an equity transfer agreement (the "Equity Transfer Agreement") with ("Ping An Trust") to transfer their 98.16% (i.e. 24.54% each) equity interests in the Tianjin Jinnan to Ping An Trust for a total cash consideration of RMB3,600,000,000 (i.e. RMB900,000,000 each) and such 98.16% equity interests were then transferred to a trust scheme (the "Ping An Trust Scheme"), set up and managed by Ping An Trust. The sales proceeds paid by the Ping An Trust Scheme was financed by the issuance of 3,600,000,000 units of senior units ("Ping An Senior Units") by Ping An Trust Scheme to certain investors for a total proceeds of RMB3,600,000,000. The said sale proceeds of RMB3,600,000,000 received by the 4 Parties were then advanced to the Tianjin Jinnan through Tianjin He'an (unilateral controlled by the 4 Parties with 25.00% each), and the loan receivables from the Tianjin Jinnan of RMB3,600,000,000 were then used by Tianjin He'an to subscribe for 3,600,000,000 junior units ("Ping An Junior Units") in the Ping An Trust Scheme pursuant to the requirements set out in a framework agreement (the "Framework Agreement") entered into by the 4 Parties, Tianjin Jinnan and Ping An Trust in August 2010.

The effective period of the Ping An Trust Scheme is 18 months with a guaranteed return of 13% per annum to the Ping An Trust. At the end of the trust period, the Ping An Trust will be repaid with the subscription money of RMB3,600,000,000 plus a total guaranteed return of RMB702,000,000, and the holders of the Ping An Junior Units will be entitled to such 98.16% equity interest in Tianjin Jinnan. In addition, the 4 Parties granted Ping An Trust with an option to acquire a maximum of 16.00% equity interest in Tianjin Jinnan for a predetermined consideration upon the end of the trust period. Such option was revalued on 25 August 2010 and 31 December 2010 by CB Richard Ellis Limited, independent qualified valuers. In the opinion of the directors, the fair value of such option is considered not significant.

During the Ping An Trust Scheme period, Tianjin Jinnan continues to be accounted for as a jointly-controlled entity of the Group as Tianjin Jinnan is jointly-controlled by the 4 Parties and Ping An Trust.

Further details of the above transactions are included in the Company's announcement dated 17 September 2010.

- (ii) On 5 November 2010, the Group entered into a share purchase agreement with Guangzhou R&F for the acquisition of the entire issued and paid-up share capital of Hines Shanghai New Jiangwan Development Co. Ltd., a company incorporated in the Cayman Islands, and Hines Shanghai New Jiangwan Development Co. Ltd. holds a 70.00% interest in the registered capital of Shanghai Chengtou Yuecheng, which holds the four parcels of land located in Shanghai and the properties developed and being developed thereon for a consideration of US\$353,500,000. Further details of the acquisition are included in the announcement of the Company dated 5 November 2010.
- (iii) Details of the joint venture arrangement are included in the Company's announcement dated 10 November 2010.

The above investments in jointly-controlled entities are indirectly held by the Company through wholly-owned subsidiaries, except Shanghai Chengtou Yuecheng.

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

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	957,347	6,614
Current assets	6,121,298	1,499,720
Current liabilities	(2,092,508)	(1,417,752)
Non-current liabilities	(1,235,352)	—
Net assets	<u>3,750,785</u>	<u>88,582</u>
Share of the jointly-controlled entities' results:		
Revenue	51,703	294,544
Other income	<u>4,759</u>	<u>375</u>
	<u>56,462</u>	<u>294,919</u>
Total expenses	(37,012)	(189,264)
Tax	<u>(7,965)</u>	<u>(40,631)</u>
Profit after tax	<u>11,485</u>	<u>65,024</u>

20. Properties Under Development

	<u>Group</u>	
	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Properties under development expected to be recovered:		
Within one year	11,940,440	13,612,605
After more than one year	<u>1,789,587</u>	<u>338,497</u>
	<u>13,730,027</u>	<u>13,951,102</u>

The Group's properties under development were located in the PRC.

Certain of the Group's properties under development with an aggregate carrying amount of approximately RMB6,123,124,000 (2009: approximately RMB3,953,230,000) were pledged to secure general banking facilities granted to the Group (note 38(a)).

Included in the Group's properties under development as at 31 December 2010 were land costs with an aggregate net carrying amount of approximately RMB778,662,000 (2009: approximately RMB860,209,000) in which the Group is in the process of obtaining land use right certificates from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of the relevant land use rights grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration.

Further particulars of the Group's major properties under development are set out on page 127 of the annual report.

21. Completed Properties Held for Sale

The Group's completed properties held for sale are located in the PRC. All completed properties held for sale are stated at cost.

At 31 December 2010, certain of the Group's completed properties held for sale with an aggregate carrying amount of approximately RMB335,763,000 (2009: approximately RMB514,362,000) were pledged to secure general banking facilities granted to the Group (note 38(a)).

Further particulars of the Group's major completed properties held for sale are set out on page 127 of the annual report.

22. Trade Receivables

Trade receivables consist of receivables from the sale of properties and rentals under operating leases. The payment terms of the sale of properties are stipulated in the relevant sale and purchase agreements. An ageing analysis of the trade receivables as at the end of the reporting period is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Within 3 months	31,035	114,644
4 to 6 months	3,135	12,830
7 to 12 months	4,952	12,162
Over 1 year	8,565	7,777
	<u>47,687</u>	<u>147,413</u>

An ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	34,170	127,474
1 to 6 months past due	13,517	19,939
	<u>47,687</u>	<u>147,413</u>

The Group's trade receivables relate to a large number of diversified customers. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there was no recent history of default and the balances are still considered fully recoverable.

23. Prepayments, Deposits and Other Receivables

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	497,469	240,892	10,128	87
Deposits and other receivables	1,181,968	212,147	66,210	237
	<u>1,679,437</u>	<u>453,039</u>	<u>76,338</u>	<u>324</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. Taxes Recoverable/Taxes Payable

(a) Taxes recoverable

	Group	
	2010	2009
	RMB'000	RMB'000
Prepaid CIT	17,265	5,477
Prepaid LAT	42,185	19,015
	<u>59,450</u>	<u>24,492</u>

(b) Taxes payable

	Group	
	2010	2009
	RMB'000	RMB'000
CIT payable	609,848	338,660
LAT payable	1,608,123	1,080,148
	<u>2,217,971</u>	<u>1,418,808</u>

25. Cash and Cash Equivalents and Restricted Cash

	Notes	Group		Company	
		2010	2009	2010	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances		3,594,696	3,572,872	435,801	172,551
Time deposits		3,208,905	37,702	8,593	8,882
		6,803,601	3,610,574	444,394	181,433
Less: Restricted cash	(a)	<u>(1,527,992)</u>	<u>(1,069,876)</u>	—	—
Cash and cash equivalents		<u>5,275,609</u>	<u>2,540,698</u>	<u>444,394</u>	<u>181,433</u>
Denominated in RMB	(b)	6,207,741	3,362,484	—	—
Denominated in other currencies		595,860	248,090	444,394	181,433
		<u>6,803,601</u>	<u>3,610,574</u>	<u>444,394</u>	<u>181,433</u>

Notes:

- (a) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for the construction of the relevant properties. As at 31 December 2010, such guarantee deposits amounted to approximately RMB1,460,392,000 (2009: approximately RMB1,066,876,000).

At 31 December 2010, certain of the Group's time deposits of RMB67,600,000 (2009: RMB3,000,000) were pledged to secure general banking facilities granted to the Group (note 38(a)).

- (b) The RMB is not freely convertible into other currencies, however, subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for one day and earn interest at the respective short term time deposit rates.

26. Trade Payables

An ageing analysis of the trade payables as at the end of the reporting date is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Due within one year or on demand	<u>1,670,898</u>	<u>1,415,470</u>

The trade payables are non-interest-bearing and are normally settled on terms of three to six months.

27. Other Payables and Accruals

	Notes	Group		Company	
		2010	2009	2010	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Deposits received and receipts in advance		6,686,400	3,308,456	—	—
Other payables and accruals	(a)	1,905,837	1,710,205	78,960	4,172
Deferred income	(b)	<u>153,025</u>	<u>203,700</u>	—	—
		<u>8,745,262</u>	<u>5,222,361</u>	<u>78,960</u>	<u>4,172</u>

(a) As at 31 December 2010, other payables included the financial obligations of RMB300,000,000 and RMB953,500,000 arising from the trust financing arrangements related to CITIC Trust and CCB Trust, of the Group respectively. Details of the trust financing arrangements are set out in notes 17(i) and 18(i) to the financial statements.

(b) The deferred income is related to a government grant of RMB203,700,000 received in 2009 for a project in an economic and technological development zone in Guangzhou, Guangdong Province, the PRC. During the year, approximately RMB50,675,000 (2009: Nil) had been credited to the cost of sales.

Other payables are non-interest-bearing and are normally settled on terms of three to six months.

28. Interest-bearing Bank and Other Borrowings

	Group					
	2010			2009		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
— secured	5.40–5.85	2011	382,194	5.40–8.32	2010	408,210
— denominated in US\$, secured	LIBOR + 3.20	2011	595,646	—	—	—
Bank loans — unsecured	—	—	—	4.50–8.32	2010	1,438,693
Current portion of long-term bank loans						
— secured	5.13–6.24	2011	606,133	5.13–8.70	2010	480,246
— denominated in HK\$, secured	HIBOR + 1.25– HIBOR + 4.50	2011	264,577	HIBOR + 1.25– HIBOR + 4.50	2010	211,244
— unsecured	5.13–5.60	2011	433,124	5.13–7.18	2010	28,235
			<u>2,281,674</u>			<u>2,566,628</u>
Non-current						
Bank loans — secured	4.40–7.15	2012–2019	7,206,116	4.86–8.90	2011–2019	4,745,085
Bank loans — denominated in HK\$, secured	HIBOR + 1.25– HIBOR + 4.00	2012–2014	734,499	HIBOR + 1.25– HIBOR + 4.50	2011–2014	594,107
Bank loans — unsecured	5.40–5.60	2012–2013	238,000	5.13–7.18	2011	479,625
Bank loans — denominated in HK\$, unsecured	HIBOR + 3.00	2012	253,010	HIBOR + 3.00	2012	260,035
Senior notes — denominated in US\$, secured (i)	12.50	2017	1,618,331	—	—	—
			<u>10,049,956</u>			<u>6,078,852</u>
			<u>12,331,630</u>			<u>8,645,480</u>
	Company					
	2010			2009		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Non-current						
Bank loans — denominated in HK\$, unsecured	HIBOR + 3.00	2012	253,010	HIBOR + 3.00	2012	260,035
Senior notes — denominated in US\$, secured (i)	12.50	2017	1,618,331	—	—	—
			<u>1,871,341</u>			<u>260,035</u>

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	2,281,674	2,566,628	—	—
In the second year	2,948,962	1,790,408	253,010	—
In the third to fifth years, inclusive	4,775,663	3,451,974	—	260,035
Beyond five years	707,000	836,470	—	—
	<u>10,713,299</u>	<u>8,645,480</u>	<u>253,010</u>	<u>260,035</u>
Senior notes repayable:				
Beyond five years	1,618,331	—	1,618,331	—
	<u>12,331,630</u>	<u>8,645,480</u>	<u>1,871,341</u>	<u>260,035</u>

Certain of the Group's borrowings are secured by the Group's assets, details of which are disclosed in note 38.

Except for the above mentioned borrowings denominated in HK\$ and US\$, all borrowings were denominated in RMB as at the end of the reporting period.

In the opinion of the directors of the Company, the carrying amounts of the Group's borrowings approximate to their fair values.

Note:

- (i) On 11 August 2010, the Company issued 12.5% senior notes with a nominal value of US\$250,000,000 (equivalent to approximately RMB1,693,123,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods. The senior notes carry interest at a rate of 12.5% per annum, which is payable semi-annually in arrears on 18 February and 18 August of each year commencing on 18 February 2011. For further details on the senior notes, please refer to the related announcements of the Company dated 12 August 2010 and 19 August 2010.

29. Deferred Tax

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

Deferred tax liabilities

Group

	2010				
	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from acquisition of a subsidiary	Revaluation of investment properties	Withholding taxes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	17,491	38,214	625,764	—	681,469
Deferred tax charged/(credited) to the income statement during the year (note 10)	6,956	—	(9,852)	56,753	53,857
Gross deferred tax liabilities at 31 December 2010	<u>24,447</u>	<u>38,214</u>	<u>615,912</u>	<u>56,753</u>	<u>735,326</u>

Deferred tax assets

Group

	2010					
	Depreciation in excess of related depreciation allowance	Provision of LAT	Losses available for offsetting against future taxable profits	Accruals	Government grant	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	567	299,092	23,956	80,466	50,925	455,006
Deferred tax credited/(charged) to the income statement during the year (note 10)	447	173,538	(19,400)	72,796	(12,669)	214,712
Gross deferred tax assets at 31 December 2010	<u>1,014</u>	<u>472,630</u>	<u>4,556</u>	<u>153,262</u>	<u>38,256</u>	<u>669,718</u>
Net deferred tax recognised at 31 December 2010						<u>(65,608)</u>

Deferred tax liabilities

Group

	2009				
	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from acquisition of a subsidiary	Revaluation of investment properties	Withholding taxes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	11,017	38,214	631,295	17,389	697,915
Deferred tax charged/(credited) to the income statement during the year (note 10)	<u>6,474</u>	<u>—</u>	<u>(5,531)</u>	<u>(17,389)</u>	<u>(16,446)</u>
Gross deferred tax liabilities at 31 December 2009	<u><u>17,491</u></u>	<u><u>38,214</u></u>	<u><u>625,764</u></u>	<u><u>—</u></u>	<u><u>681,469</u></u>

Deferred tax assets

Group

	2009					
	Depreciation in excess of related depreciation allowance	Provision of LAT	Losses available for offsetting against future taxable profits	Accruals	Government grant	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	215	211,283	14,023	14,143	—	239,664
Deferred tax credited to the income statement during the year (note 10)	<u>352</u>	<u>87,809</u>	<u>9,933</u>	<u>66,323</u>	<u>50,925</u>	<u>215,342</u>
Gross deferred tax assets at 31 December 2009	<u><u>567</u></u>	<u><u>299,092</u></u>	<u><u>23,956</u></u>	<u><u>80,466</u></u>	<u><u>50,925</u></u>	<u><u>455,006</u></u>
Net deferred tax recognised at 31 December 2009						<u><u>(226,463)</u></u>

For the purpose of the presentation of the statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	Group	
	2010	2009
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	603,560	398,325
Net deferred tax liabilities recognised in the consolidated statement of financial position	<u>(669,168)</u>	<u>(624,788)</u>
	<u><u>(65,608)</u></u>	<u><u>(226,463)</u></u>

The Group has unutilised tax losses of approximately RMB35,351,000 (2009: approximately RMB110,698,000) that can be carried forward for five years for offsetting against future taxable profits of the entities in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses amounting to approximately RMB17,127,000 (2009: approximately

RMB14,874,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

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

30. Deferred Revenue

The Group entered into an agreement with the Vendor (the “Vendor”) on 17 September 2009, pursuant to which the Group should pay a cash consideration of RMB100,000,000; and transfer certain apartments and the Group’s entire equity interest in a new company to be established by the Group under the laws of the PRC, which will hold certain properties to be built by the Group on a portion of the land of Guangzhou Lihe (collectively, the “Transfer Properties”) of RMB700,000,000 to the Vendor, in exchange for the entire equity interest in Guangzhou Lihe. The exchange of the Transfer Properties is accounted for as a transaction which generates revenue. As at 31 December 2010, the Transfer Properties were still under construction and had not been transferred to the Vendor. Accordingly, the above revenue is deferred and will be recognised upon the delivery of the Transfer Properties. Further details of the acquisition of Guangzhou Lihe are disclosed in note 36(a) to these financial statements.

31. Other Non-current Liabilities

As at 31 December 2010, financial obligations arising from the trust financing arrangements related to New China Trust Scheme and Ping An Trust Scheme of RMB656,828,000 and RMB932,467,000, respectively, were recorded in other non-current liabilities of the Group. Details of the trust financing arrangements are set out in notes 18(iii) and 19(i) to the financial statements.

32. Share Capital

Shares

	<u>2010</u> RMB’000	<u>2009</u> RMB’000
Authorised:		
8,000,000,000 (2009: 8,000,000,000) ordinary shares of HK\$0.10 each	<u>786,113</u>	<u>786,113</u>
Issued and fully paid:		
2,893,150,000 (2009: 2,893,750,000) ordinary shares of HK\$0.10 each	<u>280,485</u>	<u>280,538</u>

The movements in share capital were as follows:

- (a) During the year ended 31 December 2009, the Company issued an aggregate of 300,000,000 ordinary shares at HK\$5.10 and the aggregate consideration received, net of transaction costs, was approximately HK\$1,501,107,000 (equivalent to approximately RMB1,323,226,000).
- (b) During the year ended 31 December 2009, the Company repurchased an aggregate of 600,000 ordinary shares at approximately HK\$3,454,000 (equivalent to approximately RMB3,041,000) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the aggregate consideration paid (including transaction costs) was approximately HK\$3,458,000 (equivalent to approximately RMB3,045,000). The repurchased shares were cancelled on 8 January 2010.

A summary of the transactions in the Company’s issued share capital is as follows:

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium	Total
	HK\$’000	RMB’000	RMB’000	RMB’000	
At 1 January 2009	2,593,750,000	259,375	254,093	5,321,931	5,576,024
Issue of shares	300,000,000	30,000	26,445	1,322,250	1,348,695
Share issue expenses	—	—	—	(25,469)	(25,469)
At 31 December 2009 and 1 January 2010	2,893,750,000	289,375	280,538	6,618,712	6,899,250
Cancellation of shares	(600,000)	(60)	(53)	(2,988)	(3,041)
At 31 December 2010	<u>2,893,150,000</u>	<u>289,315</u>	<u>280,485</u>	<u>6,615,724</u>	<u>6,896,209</u>

33. Share Option Scheme

Pursuant to a written resolution of the shareholders of the Company on 11 June 2007, the Scheme was conditionally approved. On 3 July 2007, the aforesaid approval of the Scheme became unconditional and effective as the Company’s shares were listed on the Stock Exchange. The Scheme is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Group’s directors, including independent non-executive directors, any full-time or part-time employees of the Group, suppliers, customers, advisers, consultants and agents to the Group. Upon becoming effective, the Scheme will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme must not in aggregate exceed 10% of the shares of the Company in issue immediately following completion of the global offering and the capitalisation issue of the Company’s shares in 2007. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme at any time shall not exceed 30% of the shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the board of directors of the Company in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 18 December 2009 and 30 March 2010, the Company granted 8,457,000 and 8,000,000 share options respectively to the grantees, including the board of directors of the Company and certain employees of the Group. None of the share options were exercised by the grantees or cancelled by the Company as at the date of approval of these financial statements.

Details of the share options outstanding at the end of the reporting period are as follows:

	<u>Number of share options</u>
As at 1 January 2010	8,457,000
Granted and accepted during the year	<u>8,000,000</u>
As at 31 December 2010	<u><u>16,457,000</u></u>

The exercise prices of the outstanding share options granted on 18 December 2009 and 30 March 2010 were HK\$6.24 and HK\$5.67 per share respectively.

The closing prices of the Company's shares on 18 December 2009 and 30 March 2010, the dates of grant, were HK\$6.23 and HK\$5.60 per share respectively.

The share options granted to the executive directors of the Company and employees of the Company and its subsidiaries are exercisable during the following periods:

Share options granted on 18 December 2009

- (i) up to 25% of the share options granted to each grantee at any time after the expiration of 12 months from 18 December 2009;
- (ii) up to 25% of the share options granted to each grantee at any time after the expiration of 24 months from 18 December 2009;

- (iii) up to 25% of the share options granted to each grantee at any time after the expiration of 36 months from 18 December 2009;
- (iv) all the remaining share options granted to each grantee at any time after the expiration of 48 months from 18 December 2009;

and in each case, not later than 17 December 2014.

The share options granted to the independent non-executive directors of the Company are exercisable at any time prior to 17 December 2014.

Share options granted on 30 March 2010

- (i) up to 25% of the share options granted to each grantee at any time after the date of grant;
- (ii) up to 18.75% of the share options granted to each grantee at any time after the expiration of 12 months from 30 March 2010;
- (iii) up to 18.75% of the share options granted to each grantee at any time after the expiration of 24 months from 30 March 2010;
- (iv) up to 18.75% of the share options granted to each grantee at any time after the expiration of 36 months from 30 March 2010;
- (v) all the remaining share options granted to each grantee at any time after the expiration of 48 months from 30 March 2010;

and in each case, not later than 29 March 2015.

HK\$1.00 is payable for acceptance of grant of share options by each grantee.

The fair value of the share options granted during the year end 31 December 2010 determined at the date of grant using the Model was approximately RMB20,094,000 (2009: approximately RMB19,938,000). The Group recognised a share option expense of approximately RMB19,463,000 (2009: approximately RMB1,194,000) during the year ended 31 December 2010.

The following inputs were used to calculate the fair values of the share options granted:

	Options granted on 30 March <u>2010</u>	Options granted on 18 December <u>2009</u>
Grant date share price	HK\$5.60	HK\$6.23
Exercise price	HK\$5.67	HK\$6.24
Expected life	5 years	5 years
Expected volatility	77%	63%–69%
Expected dividend yield (%)	1.07%	1.48%
Risk-free interest rate (%)	0.99%– <u>1.74%</u>	0.72%– <u>1.21%</u>

The Model has been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the share options.

At each reporting date, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the income statement, with a corresponding adjustment to the equity-settled share option reserve.

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 16,457,000 additional ordinary shares of the Company and additional share capital of approximately HK\$1,646,000 (equivalent to approximately RMB1,401,000) and share premium of approximately HK\$96,486,000 (equivalent to approximately RMB82,103,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 16,457,000 share options outstanding under the Scheme, which represented approximately 0.6% of the Company's shares in issue at that date.

34. Reserves

(a) Group

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

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries which are registered in the PRC shall appropriate a certain percentage of profit for the year (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds which are restricted as to use. During the year ended 31 December 2010, the Group appropriated approximately RMB132,848,000 (2009: approximately RMB74,559,000) to such reserve funds in accordance with the relevant laws and regulations in the PRC.

(b) *Company*

Notes	Share	Contributed	Exchange	Equity-	Retained	Total
	premium	surplus	fluctuation	settled share	profits	
	account		reserve	option		
	RMB'000	RMB'000	RMB'000	reserve	RMB'000	RMB'000
Balance at 1 January 2009	5,321,931	308,006	(551,207)	—	337,009	5,415,739
Issue of shares	1,322,250	—	—	—	—	1,322,250
Share issue expenses	(25,469)	—	—	—	—	(25,469)
Share option expense	—	—	—	1,194	—	1,194
Loss for the year	—	—	—	—	(23,862)	(23,862)
Exchange realignment	—	—	(10,125)	—	—	(10,125)
Proposed final 2009 dividend	12	—	—	—	(144,658)	(144,658)
At 31 December 2009 and 1 January 2010	6,618,712	308,006	(561,332)	1,194	168,489	6,535,069
Cancellation of shares	(2,988)	—	—	—	—	(2,988)
Share option expense	—	—	—	19,463	—	19,463
Profit for the year	—	—	—	—	260,269	260,269
Exchange realignment	—	—	(206,997)	—	—	(206,997)
Proposed final 2010 dividend	12	—	—	—	(318,247)	(318,247)
At 31 December 2010	<u>6,615,724</u>	<u>308,006</u>	<u>(768,329)</u>	<u>20,657</u>	<u>110,511</u>	<u>6,286,569</u>

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation of the Group in preparation for the listing of the Company, over the nominal value of the Company's shares in exchange therefor.

The equity-settled share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

35. Investments in Jointly-Controlled Operations

The Group has entered into three (2009: three) joint venture arrangements in the form of jointly-controlled operations with certain parties, to jointly undertake three (2009: three) property development projects located in Guangzhou Guangdong Province, the PRC. As at 31 December 2010, the aggregate amounts of assets and liabilities recognised in respect of these jointly-controlled operations were as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Assets	1,090,038	964,130
Liabilities	<u>(115,092)</u>	<u>(139,665)</u>

36. Notes to the Consolidated Statement of Cash Flows

(a) Acquisition of subsidiaries

During the year ended 31 December 2010, the Group acquired a 100% equity interest in Guangzhou Hengjian, a company registered in the PRC. Guangzhou Hengjian is engaged in the construction of properties. The purchase consideration for the acquisition was RMB45,556,000, which was fully paid on the acquisition date. The transaction was accounted for as a business combination.

The fair values of identifiable assets and liabilities of Guangzhou Hengjian as at the date of acquisition were as follows:

	<u>2010</u> RMB'000
Net assets acquired:	
Prepayments, deposits and other receivables	9,433
Cash and bank balances	45,301
Other payables	<u>(9,178)</u>
	<u>45,556</u>
Satisfied by:	
Cash	<u><u>45,556</u></u>

During the year ended 31 December 2009, the Group acquired certain properties under development in the PRC and their related assets and liabilities from the Vendor. The acquisition was made by way of acquiring the entire equity interest in Guangzhou Lihe and since then, Guangzhou Lihe became a wholly-owned subsidiary of the Group. This transaction was accounted for as purchase of assets and liabilities rather than as business combination as the subsidiary acquired is a property holding company that does not constitute a business.

The book values of identifiable assets and liabilities of Guangzhou Lihe as at the date of acquisition were as follows:

	<u>2009</u> RMB'000
Net assets acquired:	
Property, plant and equipment	244
Properties under development	2,460,209
Prepayments, deposits and other receivables	65,818
Cash and bank balances	5,556
Other payables	<u>(1,731,827)</u>
	<u>800,000</u>
Satisfied by:	
Cash	100,000
Transfer of properties	<u>700,000</u>
	<u><u>800,000</u></u>

The consideration for the acquisition of Guangzhou Lihe was satisfied by cash of RMB100,000,000, certain apartments and the Group's entire equity interest in a new company to be established by the Group under the laws of the PRC, which will hold certain properties to be built by the Group on a portion of the land of Guangzhou Lihe, to the Vendor.

An analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	<u>2010</u>	<u>2009</u>
	RMB'000	RMB'000
Cash consideration	45,556	100,000
Cash and bank balances acquired	<u>(45,301)</u>	<u>(5,556)</u>
Net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>255</u>	<u>94,444</u>

(b) Acquisition of additional interests in Guangzhou Liangyu and Gain Right Limited (“Gain Right”)

During the year ended 31 December 2010, the Group acquired an additional 5.5% equity interest of Guangzhou Liangyu, increasing its ownership to 100%. A cash consideration of RMB30.0 million was paid to the then shareholder. The carrying value of the non-controlling interest acquired was approximately RMB3.6 million. The difference of approximately RMB26.4 million between the consideration and the carrying value of the interest acquired was recognised in the capital reserve within equity.

During the year ended 31 December 2009, the Group acquired an additional 35% equity interest of Gain Right, increasing its ownership to 100%. A cash consideration of approximately RMB716.0 million was paid to the then shareholder. The carrying value of the additional interest acquired was approximately RMB718.2 million. The difference of approximately RMB2.2 million between the consideration and the carrying value of the interest acquired was recognised in the capital reserve within equity.

(c) Dissolution of a subsidiary

During the year ended 31 December 2009, Dongguan Hejing Hanyuan Real Estate Limited#, a 90% owned subsidiary of the Group, was dissolved. A cash balance of approximately RMB2.0 million was distributed to the non-controlling shareholder of the subsidiary.

(d) Major non-cash transaction

In connection with the acquisition of Guangzhou Lihe as mentioned in (a) above, the Group and the Vendor further entered into a loan assignment agreement on 17 September 2009, pursuant to which the Vendor agreed to assign a loan of approximately RMB1,695 million to the Group for a consideration of the same amount.

The English name of this company referred to in these financial statements represents management’s best effort to translate the Chinese name of this company, as no English name has been registered.

37. Contingent Liabilities

At the end of the reporting period, contingent liabilities of the Group not provided for in the financial statements were as follows:

	Notes	Group	
		2010 RMB'000	2009 RMB'000
Guarantees given to banks in connection with mortgage facilities granted to certain purchasers of the Group's properties	(a)	6,160,559	4,067,148
Guarantee given to a bank in connection with a bank loan granted to an associate		160,000	—
Guarantee given to a bank in connection with a bank loan granted to a jointly-controlled entity		299,970	—
Guarantee given to a third party in connection with a payable of a jointly-controlled entity		900,000	—
Guarantee given to a bank in connection with a bank loan granted to the Vendor	(b)	700,000	700,000
		<u>8,220,529</u>	<u>4,767,148</u>

Notes:

- (a) As at 31 December 2010 and 2009, the Group provided guarantees to certain banks in respect of mortgage facilities granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled but not limited to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the board of directors of the Company considers that in case of default in payments, the net realisable value of the related properties will be sufficient to cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the years ended 31 December 2010 and 2009 for the guarantees.

- (b) Prior to the entering into the agreement in respect of the transfer of the equity interest of Guangzhou Lihe, the Vendor had obtained a bank loan in the amount of RMB700,000,000. The land use right of Guangzhou Lihe had been pledged to the bank for such a bank facility. The Group has agreed to provide a guarantee in favour of the bank to secure such bank loan so as to procure the discharge of the pledge of the land use right held by Guangzhou Lihe.

Pursuant to the aforementioned agreement, (i) the Group is not obligated to transfer the properties to the Vendor in the event that the Vendor fails to deliver the land use right certificates of Guangzhou Lihe upon the discharge of the pledge of Guangzhou Lihe's land; and (ii) the Group is entitled to deduct from the balance of the consideration of RMB700,000,000 on a dollar-to-dollar basis any loss or damage suffered by it as a result of the Vendor's failure or inability to repay the bank loan for more than three months. In such event, the shareholding of the new company to be transferred or the gross floor area of the apartments to be built on Guangzhou Lihe's land will be adjusted downward accordingly. Based on these agreed terms, the board of directors of the Company considers that the chance of the Group suffering loss is minimal and therefore no provision has been made in the financial statements for the years ended 31 December 2010 and 2009 for the guarantee.

As at 31 December 2010, the Company had contingent liabilities not provided for in the financial statements in respect of guarantees given to certain banks for loans granted to subsidiaries and an associate amounting to approximately RMB4,438,295,000 (2009: approximately RMB3,088,108,000) and RMB160,000,000 (2009: Nil) respectively.

38. Pledge of Assets

- (a) At the end of the reporting period, the following assets of the Group were pledged to certain banks to secure general banking facilities granted to the Group:

	Notes	Group	
		2010 RMB'000	2009 RMB'000
Buildings	14	370,673	46,801
Assets under construction	14	415,639	731,832
Investment properties	15	2,871,337	3,046,504
Land use rights	16	182,406	210,323
Properties under development	20	6,123,124	3,953,230
Completed properties held for sale	21	335,763	514,362
Time deposits	25	67,600	3,000
		<u>10,366,542</u>	<u>8,506,052</u>

- (b) At 31 December 2010 and 2009, the equity interests of certain subsidiaries and an associate of the Group were pledged to certain banks for the loans granted to the Group.
- (c) At 31 December 2010, the senior notes were jointly and severally guaranteed by certain subsidiaries of the Group and were secured by the pledges of their equity interests.

39. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Within one year	124,054	108,282
In the second to fifth years, inclusive	223,644	199,049
After five years	63,883	62,720
	<u>411,581</u>	<u>370,051</u>

(b) As lessee

The Group and the Company lease certain of their office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 3 years.

At 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	5,277	2,153	2,568	749
In the second to fifth years, inclusive	5,791	385	4,659	—
	11,068	2,538	7,227	749

40. Commitments

In addition to the operating lease commitments detailed in note 39(b) above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2010	2009
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment — Assets under construction	507,343	451,210
Properties being developed by the Group for sale	1,722,853	2,276,794
	2,230,196	2,728,004
Authorised but not contracted for:		
Capital contributions payable to jointly-controlled entities	487,659	53,999
	487,659	53,999

The Company did not have any significant capital commitment at the end of the reporting period.

41. Related Party Transactions

(a) Outstanding balances with related parties:

Details of the Group's balances with its associates and jointly-controlled entities are included in notes 18 and 19 to the financial statements respectively.

(b) Other transactions with related parties

Details of guarantees given by the Group and the Company to banks in connection with bank loans granted to an associate and a jointly-controlled entity and a payable of a jointly-controlled entity are included in note 37 to the financial statements.

(c) Compensation of key management personnel of the Group:

	2010	2009
	RMB'000	RMB'000
Short term employee benefits	26,201	16,581
Equity-settled share option expense	6,569	685
Post-employment benefits	850	406
Total compensation paid to key management personnel	33,620	17,672

Further details of directors' emoluments are included in note 8 to the financial statements.

42. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets — Loans and receivables

	Group	
	2010	2009
	RMB'000	RMB'000
Trade receivables (note 22)	47,687	147,413
Financial assets included in prepayments, deposits and other receivables (note 23)	1,181,968	212,147
Advances to associates (note 18)	580,632	—
Advances to jointly-controlled entities (note 19)	1,684,129	1,139,454
Due from a jointly-controlled entity (note 19)	46,155	46,999
Restricted cash (note 25)	1,527,992	1,069,876
Cash and cash equivalents (note 25)	5,275,609	2,540,698
	<u>10,344,172</u>	<u>5,156,587</u>

Financial liabilities — Financial liabilities at amortised cost

	Group	
	2010	2009
	RMB'000	RMB'000
Trade payables (note 26)	1,670,898	1,415,470
Financial liabilities included in other payables and accruals (note 27)	1,905,837	1,710,205
Due to associates (note 18)	442,382	129,956
Due to a jointly-controlled entity (note 19)	73,454	—
Interest-bearing bank and other borrowings (note 28)	12,331,630	8,645,480
Other non-current liabilities (note 31)	1,589,295	—
	<u>18,013,496</u>	<u>11,901,111</u>

Financial assets — Loans and receivables

	Company	
	2010	2009
	RMB'000	RMB'000
Due from subsidiaries (note 17)	6,415,161	6,738,406
Advances to associates (note 18)	1,888	—
Advances to jointly controlled entities (note 19)	412,810	—
Financial assets included in prepayments, deposits and other receivables (note 23)	66,210	237
Cash and cash equivalents (note 25)	444,394	181,433
	<u>7,340,463</u>	<u>6,920,076</u>

Financial liabilities — Financial liabilities at amortised cost

	Company	
	2010	2009
	RMB'000	RMB'000
Financial liabilities included in other payables and accruals (note 27)	78,960	4,172
Due to a jointly-controlled entity (note 19)	73,454	—
Interest-bearing bank and other borrowings (note 28)	1,871,341	260,035
	<u>2,023,755</u>	<u>264,207</u>

43. Financial Risk Management Objectives and Policies

The financial assets of the Group mainly include cash and cash equivalents, restricted cash, trade receivables, deposits and other receivables and advances to/amounts due from associates and jointly-controlled entities. The financial liabilities of the Group mainly include trade payables, other payables and accruals, bank and other borrowings, amounts due to associates and a jointly-controlled entity.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the end of each reporting period. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below:

Business risk

The Group conducts its operations in the PRC, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the property development industry.

Interest rate risk

The Group has no significant interest-bearing assets. The Group's exposure to changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its cash flow interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Group		
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		RMB'000	RMB'000
2010			
RMB	200	(159,108)	—
Hong Kong dollar	200	(22,756)	—
United States dollar	200	(8,009)	—
RMB	(200)	159,108	—
Hong Kong dollar	(200)	22,756	—
United States dollar	(200)	8,009	—
	<u>(200)</u>	<u>8,009</u>	<u>—</u>
	Group		
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		RMB'000	RMB'000
2009			
RMB	200	(138,819)	—
Hong Kong dollar	200	(19,618)	—
RMB	(200)	138,819	—
Hong Kong dollar	(200)	19,618	—
	<u>(200)</u>	<u>19,618</u>	<u>—</u>

* Excluding retained profits

Foreign currency risk

The Group's businesses are located in the PRC and all transactions are mainly conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB except for certain bank loans and bank balances denominated in Hong Kong dollar and United States dollar and senior notes denominated in United States dollar. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Group		
	Increase/ (decrease) in HK\$ rate	Increase/ (decrease) in US\$ rate	Increase/ (decrease) in profit before tax RMB'000
	%	%	
2010			
If RMB weakens against Hong Kong dollar	(5)	N/A	(33,257)
If RMB strengthens against Hong Kong dollar	5	N/A	33,257
If RMB weakens against United States dollar	N/A	(5)	(110,253)
If RMB strengthens against United States dollar	N/A	5	110,253
	<u>N/A</u>	<u>5</u>	<u>110,253</u>

	Group		
	Increase/ (decrease) in HK\$ rate	Increase/ (decrease) in US\$ rate	Increase/ (decrease) in profit before tax RMB'000
	%	%	
2009			
If RMB weakens against Hong Kong dollar	(5)	N/A	(40,959)
If RMB strengthens against Hong Kong dollar	5	N/A	40,959
If RMB weakens against United States dollar	N/A	(5)	94
If RMB strengthens against United States dollar	N/A	5	(94)
	<u>N/A</u>	<u>5</u>	<u>(94)</u>

Credit risk

The Group has no concentration on credit risk. The Group's cash and cash equivalents are mainly deposits with state-owned banks in the PRC and high-credit rating banks in Hong Kong.

The carrying amounts of trade and other receivables and cash and cash equivalents included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligation of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 37.

Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents through the sales proceeds generating from the sale of the properties and having available funding through an adequate amount of credit facilities to meet the Group's construction commitments. The board of directors of the Company expected that the sales in 2011 will be higher than those of 2010 and additional bank loans will be available to finance the Group's existing and future property development projects. The Group has a number of alternative plans to mitigate the potential impacts on the Group's working capital should there be any significant adverse changes in the economic environment. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2010					Total RMB'000
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other borrowings	—	982,454	2,035,902	9,308,369	2,753,334	15,080,059
Trade payables	1,670,898	—	—	—	—	1,670,898
Other payables and accruals	652,337	—	1,253,500	—	—	1,905,837
Due to associates	442,382	—	—	—	—	442,382
Due to a jointly-controlled entity	73,454	—	—	—	—	73,454
Other non-current liabilities	—	—	—	1,589,295	—	1,589,295
Guarantees given to banks in connection with mortgage facilities granted to certain purchasers of the Group's properties	6,160,559	—	—	—	—	6,160,559
Guarantee given to a bank in connection with a bank loan granted to an associate	160,000	—	—	—	—	160,000
Guarantee given to a bank in connection with a bank loan granted to a jointly-controlled entity	299,970	—	—	—	—	299,970
Guarantee given to a third party in connection with a payable of a jointly-controlled entity	900,000	—	—	—	—	900,000
Guarantee given to a bank in connection with a bank loan granted to the Vendor	700,000	—	—	—	—	700,000
	<u>11,059,600</u>	<u>982,454</u>	<u>3,289,402</u>	<u>10,897,664</u>	<u>2,753,334</u>	<u>28,982,454</u>

	2009					Total RMB'000
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other borrowings	—	238,834	2,759,137	5,807,544	956,983	9,762,498
Trade payables	1,415,470	—	—	—	—	1,415,470
Other payables and accruals	860,205	—	850,000	—	—	1,710,205
Due to an associate	129,956	—	—	—	—	129,956
Guarantees given to banks in connection with mortgage facilities granted to certain purchasers of the Group's properties	4,067,148	—	—	—	—	4,067,148
Guarantees given to banks in connection with bank loans granted to the Vendor	700,000	—	—	—	—	700,000
	<u>7,172,779</u>	<u>238,834</u>	<u>3,609,137</u>	<u>5,807,544</u>	<u>956,983</u>	<u>17,785,277</u>

Company

	2010					Total RMB'000
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other borrowings	—	54,564	163,842	1,101,185	1,965,333	3,284,924
Other payables and accruals	78,960	—	—	—	—	78,960
Due to a jointly-controlled entity	73,454	—	—	—	—	73,454
Guarantees given to banks in connection with bank loans granted to subsidiaries	4,438,295	—	—	—	—	4,438,295
Guarantees given to a bank in connection with a bank loan and a payable granted to an associate	1,060,000	—	—	—	—	1,060,000
	<u>5,650,709</u>	<u>54,564</u>	<u>163,842</u>	<u>1,101,185</u>	<u>1,965,333</u>	<u>8,935,633</u>

	2009					Total RMB'000
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other borrowings	—	2,099	6,298	271,232	—	279,629
Other payables and accruals	4,172	—	—	—	—	4,172
Guarantees given to banks in connection with bank loans granted to subsidiaries	3,088,108	—	—	—	—	3,088,108
	<u>3,092,280</u>	<u>2,099</u>	<u>6,298</u>	<u>271,232</u>	<u>—</u>	<u>3,371,909</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 2009.

The Group monitors capital using a gearing ratio, which is the net borrowings (total bank and other borrowings net of cash and cash equivalents and restricted cash) divided by total equity. The Group's policy is to maintain a stable gearing ratio. Capital includes share capital and reserves attributable to the owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Net borrowings	<u>5,528,029</u>	<u>5,034,906</u>
Total equity	<u>11,594,272</u>	<u>10,408,323</u>
Gearing ratio	<u>47.7%</u>	<u>48.4%</u>

44. Event after the Reporting Period

On 20 January 2011, Shanghai R&F Real Estate Development Co., Ltd. ("Shanghai R&F"), a limited company incorporated in the PRC, a wholly-owned subsidiary of Guangzhou R&F Properties Co., Ltd., and Shanghai Hejing, as the purchasers, have entered into an equity transfer agreement with Shanghai Chengtou Cityland (Group) Co., Ltd. ("SCC"), a company incorporated in the PRC, as the seller, pursuant to which Shanghai R&F and Shanghai Hejing have agreed to acquire 30% of the registered capital of Shanghai Chengtou Yuecheng Real Estate Co., Ltd., a limited company incorporated in the PRC, from SCC.

Details of the above transaction are contained in the Company's announcement dated 20 January 2011.

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 10 March 2011.

**INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2009**



To the shareholders of KWG Property Holding Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of KWG Property Holding Limited set out on pages 50 to 118, which comprise the consolidated and company statements of financial position as at 31 December 2009, 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 notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

18th Floor

Two International Finance Centre

8 Finance Street, Central

Hong Kong

24 March 2010

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2009

		<u>2009</u>	<u>2008</u>
	Notes	RMB'000	RMB'000
REVENUE	5	4,266,572	1,574,214
Cost of sales		<u>(2,650,267)</u>	<u>(746,413)</u>
Gross profit		<u>1,616,305</u>	<u>827,801</u>
Other income and gains	5	49,265	150,644
Selling and marketing costs		(188,494)	(89,514)
Administrative expenses		(281,988)	(170,908)
Other operating expenses, net		(42,183)	(1,758)
Fair value gains/(losses) on investment properties, net		60,587	(23,569)
Finance costs	7	(9,024)	—
Share of profits and losses of:			
An associate		(10)	—
Jointly-controlled entities		<u>65,024</u>	<u>10,582</u>
PROFIT BEFORE TAX	6	1,269,482	703,278
Income tax expenses	10	<u>(548,025)</u>	<u>(337,108)</u>
PROFIT FOR THE YEAR		<u>721,457</u>	<u>366,170</u>
Attributable to:			
Owners of the parent		720,078	368,532
Minority interests		<u>1,379</u>	<u>(2,362)</u>
		<u>721,457</u>	<u>366,170</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic	13	<u>RMB26 cents</u>	<u>RMB14 cents</u>
Diluted		<u>RMB26 cents</u>	<u>RMB14 cents</u>

Details of the dividends proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2009

	2009	2008
	RMB'000	RMB'000
PROFIT FOR THE YEAR	721,457	366,170
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(32,985)	(58,242)
Share of other exchange differences on translation of a jointly- controlled entity	3,071	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR,		
NET OF TAX	(29,914)	(58,242)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	691,543	307,928
Attributable to:		
Owners of the parent	690,184	324,083
Minority interests	1,359	(16,155)
	691,543	307,928

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2009

	Notes	<u>2009</u> RMB'000	<u>2008</u> RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	981,508	443,268
Investment properties	15	3,501,460	3,546,400
Land use rights	16	572,833	549,952
Interest in an associate	18	1,348,990	—
Interests in jointly-controlled entities	19	1,228,036	20,487
Deferred tax assets	30	398,325	168,453
Long term prepayment	20	—	1,098,483
Total non-current assets		<u>8,031,152</u>	<u>5,827,043</u>
CURRENT ASSETS			
Properties under development	21	13,951,102	11,878,560
Completed properties held for sale	22	2,300,415	1,534,404
Trade receivables	23	147,413	30,713
Prepayments, deposits and other receivables	24	453,039	1,069,487
Due from a jointly-controlled entity	19	46,999	50,314
Taxes recoverable	25(a)	24,492	3,316
Restricted cash	26	1,069,876	205,942
Cash and cash equivalents	26	<u>2,540,698</u>	<u>1,167,009</u>
Total current assets		<u>20,534,034</u>	<u>15,939,745</u>
CURRENT LIABILITIES			
Trade payables	27	1,415,470	2,879,007
Other payables and accruals	28	5,222,361	2,063,396
Due to an associate	18	129,956	—
Interest-bearing bank loans	29	2,566,628	1,058,928
Taxes payable	25(b)	<u>1,418,808</u>	<u>1,012,289</u>
Total current liabilities		<u>10,753,223</u>	<u>7,013,620</u>
NET CURRENT ASSETS		<u>9,780,811</u>	<u>8,926,125</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>17,811,963</u>	<u>14,753,168</u>

	Notes	<u>2009</u> RMB'000	<u>2008</u> RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	29	6,078,852	4,935,253
Deferred tax liabilities	30	624,788	626,704
Deferred revenue	31	<u>700,000</u>	<u>—</u>
Total non-current liabilities		<u>7,403,640</u>	<u>5,561,957</u>
Net assets		<u>10,408,323</u>	<u>9,191,211</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	280,538	254,093
Treasury shares	32	(3,041)	—
Reserves	34(a)	9,982,514	8,136,797
Proposed final dividends	12	<u>144,658</u>	<u>77,813</u>
		10,404,669	8,468,703
Minority interests		<u>3,654</u>	<u>722,508</u>
Total equity		<u>10,408,323</u>	<u>9,191,211</u>

Kong Jian Min
Director

Kong Jian Tao
Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2009**

Notes	Attributable to owners of the parent											
	Issued capital	Share premium account	Treasury shares reserve	Reserve funds	Exchange fluctuation reserve	Equity-settled share option reserve	Capital reserve	Retained profits	Proposed final dividends	Total	Minority interests	Total equity
	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000 (note 34(a))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008 . . .	254,093	5,321,931	—	150,344	(39,519)	—	—	2,457,771	389,063	8,533,683	738,663	9,272,346
Total comprehensive income for the year	—	—	—	—	(44,449)	—	—	368,532	—	324,083	(16,155)	307,928
Final 2007 dividend declared	—	—	—	—	—	—	—	—	(389,063)	(389,063)	—	(389,063)
Transfer to reserves . . .	—	—	—	39,001	—	—	—	(39,001)	—	—	—	—
Proposed final 2008 dividend	—	—	—	—	—	—	—	(77,813)	77,813	—	—	—
At 31 December 2008 and 1 January 2009	254,093	5,321,931*	—	189,345*	(83,968)*	—*	—*	2,709,489*	77,813	8,468,703	722,508	9,191,211
Total comprehensive income for the year	—	—	—	—	(29,894)	—	—	720,078	—	690,184	1,359	691,543
Issue of shares	26,445	1,322,250	—	—	—	—	—	—	—	1,348,695	—	1,348,695
Share issue expenses . .	—	(25,469)	—	—	—	—	—	—	—	(25,469)	—	(25,469)
Repurchase of shares . .	—	—	(3,041)	—	—	—	—	—	—	(3,041)	—	(3,041)
Acquisition of minority interests	—	—	—	—	—	—	2,216	—	—	2,216	(718,184)	(715,968)
Share option expenses . .	—	—	—	—	—	1,194	—	—	—	1,194	—	1,194
Dissolution of a subsidiary	—	—	—	—	—	—	—	—	—	—	(2,029)	(2,029)
Final 2008 dividend declared	—	—	—	—	—	—	—	—	(77,813)	(77,813)	—	(77,813)
Transfer to reserves . . .	—	—	—	74,559	—	—	—	(74,559)	—	—	—	—
Proposed final 2009 dividend	—	—	—	—	—	—	—	(144,658)	144,658	—	—	—
At 31 December 2009 . .	<u>280,538</u>	<u>6,618,712*</u>	<u>(3,041)</u>	<u>263,904*</u>	<u>(113,862)*</u>	<u>1,194*</u>	<u>2,216*</u>	<u>3,210,350*</u>	<u>144,658</u>	<u>10,404,669</u>	<u>3,654</u>	<u>10,408,323</u>

* These reserve accounts comprise the consolidated reserves of approximately RMB9,982,514,000 (2008: RMB8,136,797,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2009

	Notes	<u>2009</u> RMB'000	<u>2008</u> RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,269,482	703,278
Adjustments for:			
Finance costs	7	9,024	—
Share of profit and loss of an associate		10	—
Share of profits and losses of jointly-controlled entities		(65,024)	(10,582)
Interest income	5	(7,066)	(23,537)
(Gain)/loss on disposal of investment properties, net	5, 6	40,086	(44,752)
Loss on disposal of items of property, plant and equipment	6	—	331
Depreciation	6	16,716	8,638
Amortisation of land use rights	6	810	618
Changes in fair values of investment properties, net	15	(60,587)	23,569
Equity-settled share options expenses	33	1,194	—
		<u>1,204,645</u>	<u>657,563</u>
(Increase)/decrease in properties under development		546,742	(3,168,278)
Increase in completed properties held for sale		(766,011)	(344,775)
(Increase)/decrease in trade receivables		(116,700)	3,907
(Increase)/decrease in prepayments, deposits and other receivables		692,980	(331,389)
Decrease in trade payables		(1,165,043)	(857,469)
Increase in other payables and accruals		810,448	307,490
Increase in amount due to an associate		129,956	—
(Increase)/decrease in amount due from a jointly-controlled entity		3,315	(21,313)
Increase in restricted cash		<u>(863,934)</u>	<u>(58,589)</u>
Cash generated from/(used in) operations		476,398	(3,812,853)
Interest received		7,066	23,537
Interest paid		(486,963)	(377,845)
Corporate income tax paid		(332,235)	(508,430)
Land appreciation tax paid		<u>(62,235)</u>	<u>(36,110)</u>
Net cash flows used in operating activities		<u>(397,969)</u>	<u>(4,711,701)</u>

		<u>2009</u>	<u>2008</u>
	Notes	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(548,946)	(222,059)
Acquisition of land use rights		(61,988)	(6,882)
Increase in long term prepayment.		—	(165,124)
Proceeds from disposal of investment properties . . .		77,254	125,702
Acquisition of a subsidiary	36(a)	(94,444)	—
Dissolution of a subsidiary	36(c)	(2,029)	—
Acquisition of minority interests	36(b)	(715,968)	—
Proceeds from disposals of property, plant and equipment.		—	193
Investment in an associate		(499,000)	—
Additional investment in a jointly-controlled entity .		—	(6,000)
Advances to jointly-controlled entities		(274,281)	—
Net cash flows used in investing activities		<u>(2,119,402)</u>	<u>(274,170)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares.	32(a)	1,348,695	—
Share issue expenses	32(a)	(25,469)	—
Repurchase of shares	32(b)	(3,041)	—
New bank loans		5,471,033	3,816,473
Repayment of bank loans		(2,788,137)	(458,512)
Dividend paid		(77,813)	(389,063)
Net cash flows from financing activities		<u>3,925,268</u>	<u>2,968,898</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		1,407,897	(2,016,973)
Cash and cash equivalents at beginning of year		1,167,009	3,288,639
Effect of foreign exchange rate changes, net		(34,208)	(104,657)
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		<u>2,540,698</u>	<u>1,167,009</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	2,502,996	1,156,436
Non-pledged time deposits with original maturity of less than three months when acquired	26	37,702	10,573
Cash and cash equivalents		<u>2,540,698</u>	<u>1,167,009</u>

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2009

	Notes	<u>2009</u> RMB'000	<u>2008</u> RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	294	397
Interests in subsidiaries	17	<u>7,039,380</u>	<u>5,685,560</u>
Total non-current assets		<u>7,039,674</u>	<u>5,685,957</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	324	2,072
Cash and cash equivalents	26	<u>181,433</u>	<u>61,375</u>
Total current assets		<u>181,757</u>	<u>63,447</u>
CURRENT LIABILITIES			
Other payables and accruals	28	<u>4,172</u>	<u>1,759</u>
Total current liabilities		<u>4,172</u>	<u>1,759</u>
NET CURRENT ASSETS		<u>177,585</u>	<u>61,688</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,217,259</u>	<u>5,747,645</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	29	<u>260,035</u>	—
Total non-current liabilities		<u>260,035</u>	—
Net assets		<u>6,957,224</u>	<u>5,747,645</u>
EQUITY			
Issued capital	32	280,538	254,093
Treasury shares	32(b)	(3,041)	—
Reserves	34(b)	6,535,069	5,415,739
Proposed final dividends	12	<u>144,658</u>	<u>77,813</u>
Total equity		<u>6,957,224</u>	<u>5,747,645</u>

Kong Jian Min
Director

Kong Jian Tao
Director

NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2009

1. Corporate Information

KWG Property Holding Limited (“KWG Property” or the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to the “Group”) was involved in the following principal activities in the People’s Republic of China (the “PRC”):

- property development
- property investment
- hotel operation (commenced in current year)
- provision of property management services

In the opinion of the directors, the immediate and ultimate holding company of the Company is Plus Earn Consultants Limited, which is incorporated in the British Virgin Islands.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside owners not held by the Group in the results and net assets of the Company’s subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 Changes in Accounting Policy and Disclosures

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKFRS 8 Amendment*	Amendment to HKFRS 8 <i>Operating Segments — Disclosure of information about segment assets (early adopted)</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 <i>Revenue — Determining whether an entity is acting as a principal or as an agent</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC) — Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) — Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement — Embedded Derivatives</i>
HK(IFRIC) — Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC) — Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC) — Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC) — Int 18	<i>Transfers of Assets from Customers</i> (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKFRS 8, HKAS 1 (Revised) and HKAS 40, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

The principal effects of adopting HKFRS 8, HKAS 1 (Revised) and HKAS 40 are as follows:

HKFRS 8 Operating Segments

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

The Group has early adopted in these financial statements the Amendment to HKFRS 8 issued in *Improvements to HKFRSs 2009* which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKAS 40 Investment Property

HKAS 40 revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property. The Group has applied the amendments prospectively from 1 January 2009. The Group's accounting policy for investment properties is to subsequently state them at fair value with changes in fair values recognised in profit or loss. As a result of the amendments, an investment property under construction is carried at fair value at the earlier of when the fair value first becomes reliably determinable and when the construction of the property is completed.

As a result of the adoption of this amendment, the Group reclassified properties under development of approximately RMB11.8 million into investment properties. A fair value increase of approximately RMB58.4 million in respect of the investment properties under construction has been recognised in the income statement for the year ended 31 December 2009.

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ¹
HKFRS 1 Amendments . .	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters</i> ²
	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ⁴
HKFRS 2 Amendments . .	Amendments to HKFRS 2 <i>Share-based Payment — Group Cash-settled Share-based Payment Transactions</i> ²
HKFRS 3 (Revised)	<i>Business Combinations</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ⁵
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ¹
HKAS 32 Amendment . . .	Amendment to HKAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i> ³
HKAS 39 Amendment . . .	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i> ¹
HK(IFRIC) — Int 14 Amendments	Amendments to HK(IFRIC) — Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ⁵
HK(IFRIC) — Int 17 . . .	<i>Distributions of Non-cash Assets to Owners</i> ¹
HK(IFRIC) — Int 19 . . .	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs issued in October 2008</i>	Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary</i> ¹
HK Interpretation 4 (Revised in December 2009)	<i>Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ²

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC) — Int 9 and HK(IFRIC) — Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

¹ Effective for annual periods beginning on or after 1 July 2009
² Effective for annual periods beginning on or after 1 January 2010
³ Effective for annual periods beginning on or after 1 February 2010
⁴ Effective for annual periods beginning on or after 1 July 2010
⁵ Effective for annual periods beginning on or after 1 January 2011
⁶ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRS upon initial application. So far, the Group considers that except for the adoption of HKAS 27 (Revised) and HKFRS 3 (Revised) as further explained below, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of the jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Jointly-controlled operations

Joint venture arrangements which involve the use of the assets and other reserves of the Group and other parties, without the establishment of a separate entity, are referred to as jointly-controlled operations. Under this arrangement, assets remain under the ownership and control of each party. Revenue and expenses incurred in common are shared by the parties according to the contractual arrangement.

Assets that the Group controls and liabilities that it incurs in relation to jointly-controlled operations are recognised in the Group's consolidated statement of financial position on an accrual basis and are classified according to the nature of the items. The Group's share of the income that it earns from jointly-controlled operations, together with the expenses that it incurs, is included in the Group's consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to the Group.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in an associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Buildings	3% to 5%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	10% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Assets under construction represent properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, amortised land use rights and capitalised borrowing costs on related borrowed funds during the period of construction. These properties are reclassified as investment properties or appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale

in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each reporting period.

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

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Leases

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

Land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables, and advance to/amount due from jointly-controlled entities.

Subsequent measurement

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

Loans and receivables

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised

to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, an amount due to an associate and interest-bearing bank loans.

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of each reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair values of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interest in the joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interest in the joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. It is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

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

- (a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) hotel revenue from room rentals, food and beverage sales and other ancillary services when the services are rendered;
- (d) property management fee income, when the related management services have been provided; and
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes Model (the “Model”), further details of which are given in note 33 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. Contributions to the central pension scheme are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

Dividends

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

Foreign currencies

The Company's functional currency is in Hong Kong dollar while the presentation currency of these financial statements is in RMB. In the opinion of the directors, as the Group's operations are mainly in the PRC, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

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

Judgements

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

Operating lease commitments — Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as assets under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held

for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to investment properties and are subject to revaluation at the end of each reporting period.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2009 was approximately RMB23,956,000 (2008: RMB14,023,000). Further details are contained in note 30 to the financial statements.

Estimation uncertainty

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

Corporate income taxes

The Group is subject to corporate income taxes in the PRC. As a result of the fact that certain matters relating to the corporate income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters are different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provision in the period in which the differences realise.

PRC land appreciation taxes

The Group is subject to land appreciation taxes in the PRC. The provision of land appreciation taxes is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual land appreciation tax liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its land appreciation tax calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the land appreciation tax expenses and the related provision in the period in which the differences realise.

Estimation of fair value of investment properties

Investment properties including completed investment properties and investment properties under construction are revalued at the end of each reporting period based on the appraised market value provided by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might

materially differ from the actual results. In making the estimation, information from current prices in an active market for similar properties is considered and assumptions that are mainly based on market conditions existing at the end of each reporting period are used.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Recognition and allocation of construction cost on properties under development

Development costs of properties are recorded as properties under development during construction stage and will be transferred to completed properties held for sale upon completion. Apportionment of these costs will be recognised in the income statements upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

4. Segment Information

For management purpose, the Group is organised into four operating segments as follows:

- (a) Property development: Sale of properties
- (b) Property investment: Leasing of properties
- (c) Hotel operation: Operation of hotel
- (d) Property management: Provision of property management services

The property development projects undertaken by the Group during the year are all located in the PRC.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, as well as head office and corporate incomes and expenses are excluded from such measurement.

The Group's revenue from external customers is derived solely from its operations in the PRC, and no non-current assets of the Group are located outside the PRC.

During the year, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Year ended 31 December 2009

	<u>Property development</u> RMB'000	<u>Property investment</u> RMB'000	<u>Hotel operation</u> RMB'000	<u>Property management</u> RMB'000	<u>Total</u> RMB'000
Segment revenue:					
Sales to external customers	4,109,986	98,701	10,003	47,882	4,266,572
Segment results	<u>1,351,695</u>	<u>115,921</u>	<u>(837)</u>	<u>8,059</u>	1,474,838
<i>Reconciliations:</i>					
Interest income and unallocated income					49,265
Unallocated expenses					(245,597)
Finance costs					<u>(9,024)</u>
Profit before tax					1,269,482
Tax					<u>(548,025)</u>
Profit for the year					<u>721,457</u>
Other segment information:					
Depreciation and amortisation . . .	16,298	2,437	4,483	74	23,292
Fair value gains on investment properties, net	—	60,587	—	—	60,587
Share of profits and losses of:					
An associate	(10)	—	—	—	(10)
Jointly-controlled entities	<u>65,024</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>65,024</u>

Year ended 31 December 2008

	Property development	Property investment	Hotel operation	Property management	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:					
Sales to external customers	1,471,220	74,526	—	28,468	1,574,214
Segment results	654,924	92,492	—	20,878	768,294
<i>Reconciliations:</i>					
Interest income and unallocated income					105,892
Unallocated expenses					(170,908)
Finance costs					—
Profit before tax					703,278
Tax					(337,108)
Profit for the year					366,170
Other segment information:					
Depreciation and amortisation . . .	9,464	2,437	—	41	11,942
Fair value losses on investment properties, net	—	23,569	—	—	23,569
Share of profits and losses of:					
An associate	—	—	—	—	—
A jointly-controlled entity	10,582	—	—	—	10,582

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the gross proceeds, net of business tax, from the sale of properties, gross rental income received and receivable from investment properties, gross revenue from hotel operation and property management fee income during the year.

An analysis of revenue, other income and gains is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Revenue		
Sale of properties	4,109,986	1,471,220
Gross rental income	98,701	74,526
Hotel operation income	10,003	—
Property management fees	47,882	28,468
	<u>4,266,572</u>	<u>1,574,214</u>
Other income and gains		
Bank interest income	7,066	23,537
Gain on disposal of investment properties	—	44,752
Foreign exchange differences, net	24,646	73,675
Others	17,553	8,680
	<u>49,265</u>	<u>150,644</u>

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

		<u>2009</u>	<u>2008</u>
	Notes	RMB'000	RMB'000
Cost of properties sold		2,636,989	738,895
Depreciation	14	16,716	8,638
Amortisation of land use rights	16	6,576	3,304
Less: Amount capitalised in assets under construction		<u>(5,766)</u>	<u>(2,686)</u>
		<u>810</u>	<u>618</u>
Minimum lease payments under operating leases of land and buildings		4,175	3,673
Auditors' remuneration		3,800	3,500
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		130,409	89,371
Pension scheme contributions*		7,680	5,041
Equity-settled share option expenses		757	—
Less: Amount capitalised in assets under construction and properties under development		<u>(48,948)</u>	<u>(41,867)</u>
		<u>89,898</u>	<u>52,545</u>
(Gain)/loss on disposal of investment properties, net**		40,086	(44,752)
Loss on disposal of items of property, plant and equipment		—	331
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		<u>19,057</u>	<u>13,799</u>

* At 31 December 2009, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil).

** The loss on disposal of investment properties, net, is included in "Other operating expenses, net" in the consolidated income statement.

7. Finance Costs

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	RMB'000	RMB'000
Interest on bank loans	456,589	340,008
Less: Interest capitalised	<u>(447,565)</u>	<u>(340,008)</u>
	<u>9,024</u>	<u>—</u>

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Fees	2,376	2,120
Other emoluments:		
Salaries, allowances and benefits in kind	6,110	4,442
Equity-settled share option expense	437	—
Pension scheme contributions	224	188
	<u>6,771</u>	<u>4,630</u>
	<u>9,147</u>	<u>6,750</u>

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme (the "Scheme") of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

	Fees	Equity-settled share option expense	Total remuneration
	RMB'000	RMB'000	RMB'000
2009			
Independent non-executive directors:			
Mr. Lee Ka Sze, Carmelo	264	74	338
Mr. Dai Feng	264	74	338
Mr. Tam Chun Fai	264	73	337
	<u>792</u>	<u>221</u>	<u>1,013</u>
2008			
Independent non-executive directors:			
Mr. Lee Ka Sze, Carmelo	265	—	265
Mr. Dai Feng	265	—	265
Mr. Tam Chun Fai	265	—	265
	<u>795</u>	<u>—</u>	<u>795</u>

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

(b) Executive directors

	<u>Fees</u>	<u>Salaries, allowances and benefits in kind</u>	<u>Equity-settled share option expenses</u>	<u>Pension scheme contributions</u>	<u>Total remuneration</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
2009					
Executive directors:					
Mr. Kong Jian Min	264	879	—	40	1,183
Mr. Kong Jian Tao	264	780	—	40	1,084
Mr. Kong Jian Nan	264	780	—	41	1,085
Mr. Li Jian Ming	264	1,104	72	41	1,481
Mr. Tsui Kam Tim	264	1,145	72	21	1,502
Mr. He Wei Zhi	264	1,422	72	41	1,799
	<u>1,584</u>	<u>6,110</u>	<u>216</u>	<u>224</u>	<u>8,134</u>
2008					
Executive directors:					
Mr. Kong Jian Min	265	880	—	40	1,185
Mr. Kong Jian Tao	265	755	—	42	1,062
Mr. Kong Jian Nan	265	756	—	42	1,063
Mr. Li Jian Ming	265	905	—	43	1,213
Mr. Tsui Kam Tim	265	1,146	—	21	1,432
	<u>1,325</u>	<u>4,442</u>	<u>—</u>	<u>188</u>	<u>5,955</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

9. Five Highest Paid Employees

All of the five highest paid employees during the year ended 31 December 2008 were the directors of the Company, details of whose remuneration are set out in note 8 above.

The five highest paid employees for the year ended 31 December 2009 included three directors. Details of the remuneration of the remaining two non-directors, highest paid employees for the year are as follows:

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Salaries, allowances and benefits in kind	3,962	—
Equity-settled share option expense	285	—
Pension scheme contributions	19	—
	<u>4,266</u>	<u>—</u>

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

	Number of employees	
	2009	2008
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,500,001 to HK\$3,000,000	1	—
	<u>2</u>	<u>—</u>

No emoluments were paid by the Group to the directors or any of the non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2008: Nil).

10. INCOME TAX EXPENSES

	Group	
	2009 RMB'000	2008 RMB'000
Current — PRC		
Corporate income tax (“CIT”)	428,578	208,548
Land appreciation tax (“LAT”)	351,235	197,594
	779,813	406,142
Deferred	(231,788)	(69,034)
Total tax charge for the year	<u>548,025</u>	<u>337,108</u>

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

	Group			
	2009		2008	
	RMB'000	%	RMB'000	%
Profit before tax	<u>1,269,482</u>		<u>703,278</u>	
At statutory income tax rate of 25%				
(2008: 25%)	317,371	25.0	175,820	25.0
Income not subject to tax	(6,912)	(0.5)	(3,323)	(0.5)
Expenses not deductible for tax	10,479	0.8	5,906	0.8
Effect of withholding tax on the distributable profits of the Group’s PRC subsidiaries	(17,389)	(1.4)	17,389	2.5
Profit and loss attributable to an associate	2	0.1	—	—
Profits and losses attributable to jointly-controlled entities	(16,256)	(1.3)	(2,645)	(0.4)
Land appreciation tax	351,235	27.6	197,594	28.1
Effect of land appreciation tax	(87,809)	(6.9)	(49,398)	(7.0)
Others	(2,696)	(0.2)	(4,235)	(0.6)
Tax charge at the Group’s effective rate	<u>548,025</u>	<u>43.2</u>	<u>337,108</u>	<u>47.9</u>

The share of CIT and LAT attributable to the jointly-controlled entities amounting to approximately RMB21,648,000 (2008: RMB3,527,000) and RMB18,983,000 (2008: RMB4,931,000), respectively, are included in “Share of profits and losses of jointly-controlled entities” on the face of the consolidated income statement.

Hong Kong profits tax

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2009 and 2008.

PRC corporate income tax

The PRC CIT in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the years ended 31 December 2009 and 2008, based on existing legislation, interpretations and practices in respect thereof.

PRC land appreciation tax

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

11. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a loss of approximately RMB23,862,000 (2008: profit of RMB321,485,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12. Dividends

	<u>2009</u>	<u>2008</u>
	RMB'000	RMB'000
Proposed final — RMB5 cents (2008: RMB3 cents) per ordinary share	144,658	77,813

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. Earnings Per Share Attributable to Owners of the Parent

The calculation of the basic earnings per share amount for the year is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of approximately 2,735,117,000 (2008: 2,593,750,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2009 in respect of the share options outstanding during the year as there was no dilutive effect on the basic earnings per share amounts presented with the exercise price of the share options greater than the average market prices of the Company's shares. Diluted earnings per share amount for the year ended 31 December 2008 is the same as the basic earnings per share as no diluting events existed during the year ended 31 December 2008.

The calculation of basic and diluted earnings per share is based on:

	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Earnings		
Profit attributable to owners of the parent	<u>720,078</u>	<u>368,532</u>
	<u>Number of shares</u>	
	<u>2009</u>	<u>2008</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	<u>2,735,117,000</u>	<u>2,593,750,000</u>

14. Property, Plant and Equipment

Group

	<u>Buildings</u>	<u>Leasehold</u>	<u>Plant and</u>	<u>Furniture,</u>	<u>Motor</u>	<u>Assets</u>	<u>Total</u>
	<u>RMB'000</u>	<u>improve-</u>	<u>machinery</u>	<u>fixtures and</u>	<u>vehicles</u>	<u>under</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>ments</u>	<u>RMB'000</u>	<u>office</u>	<u>RMB'000</u>	<u>construction</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>equipment</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2009							
At 1 January 2009:							
Cost	80,893	1,596	3,188	20,488	31,439	330,484	468,088
Accumulated depreciation	<u>(6,379)</u>	<u>(1,428)</u>	<u>(2,286)</u>	<u>(4,725)</u>	<u>(10,002)</u>	—	<u>(24,820)</u>
Net carrying amount	<u>74,514</u>	<u>168</u>	<u>902</u>	<u>15,763</u>	<u>21,437</u>	<u>330,484</u>	<u>443,268</u>
At 1 January 2009, net of accumulated depreciation							
	74,514	168	902	15,763	21,437	330,484	443,268
Additions	—	131	—	11,465	4,919	538,441	554,956
Transfers	343,239	—	—	—	—	(343,239)	—
Depreciation provided during the year	<u>(7,482)</u>	<u>(120)</u>	<u>(487)</u>	<u>(5,326)</u>	<u>(3,301)</u>	—	<u>(16,716)</u>
At 31 December 2009, net of accumulated depreciation							
	<u>410,271</u>	<u>179</u>	<u>415</u>	<u>21,902</u>	<u>23,055</u>	<u>525,686</u>	<u>981,508</u>
At 31 December 2009:							
Cost	424,132	1,727	3,188	31,953	36,358	525,686	1,023,044
Accumulated depreciation	<u>(13,861)</u>	<u>(1,548)</u>	<u>(2,773)</u>	<u>(10,051)</u>	<u>(13,303)</u>	—	<u>(41,536)</u>
Net carrying amount	<u>410,271</u>	<u>179</u>	<u>415</u>	<u>21,902</u>	<u>23,055</u>	<u>525,686</u>	<u>981,508</u>

Group

	<u>Buildings</u>	<u>Leasehold improve- ments</u>	<u>Plant and machinery</u>	<u>Furniture, fixtures and office equipment</u>	<u>Motor vehicles</u>	<u>Assets under construction</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2008							
At 1 January 2008:							
Cost	80,893	1,329	3,188	8,864	23,697	126,727	244,698
Accumulated depreciation	<u>(3,188)</u>	<u>(1,329)</u>	<u>(1,734)</u>	<u>(2,321)</u>	<u>(8,441)</u>	—	<u>(17,013)</u>
Net carrying amount . . .	<u>77,705</u>	<u>—</u>	<u>1,454</u>	<u>6,543</u>	<u>15,256</u>	<u>126,727</u>	<u>227,685</u>
At 1 January 2008, net of accumulated							
depreciation	77,705	—	1,454	6,543	15,256	126,727	227,685
Additions	—	267	—	11,624	9,097	203,757	224,745
Disposals	—	—	—	—	(524)	—	(524)
Depreciation provided during the year	<u>(3,191)</u>	<u>(99)</u>	<u>(552)</u>	<u>(2,404)</u>	<u>(2,392)</u>	—	<u>(8,638)</u>
At 31 December 2008, net of accumulated							
depreciation	<u>74,514</u>	<u>168</u>	<u>902</u>	<u>15,763</u>	<u>21,437</u>	<u>330,484</u>	<u>443,268</u>
At 31 December 2008:							
Cost	80,893	1,596	3,188	20,488	31,439	330,484	468,088
Accumulated depreciation	<u>(6,379)</u>	<u>(1,428)</u>	<u>(2,286)</u>	<u>(4,725)</u>	<u>(10,002)</u>	—	<u>(24,820)</u>
Net carrying amount . . .	<u>74,514</u>	<u>168</u>	<u>902</u>	<u>15,763</u>	<u>21,437</u>	<u>330,484</u>	<u>443,268</u>

Company

	<u>Furniture, fixtures and office equipment</u> RMB'000	<u>Motor vehicles</u> RMB'000	<u>Total</u> RMB'000
31 December 2009			
At 1 January 2009:			
Cost	48	482	530
Accumulated depreciation	<u>(22)</u>	<u>(111)</u>	<u>(133)</u>
Net carrying amount	<u>26</u>	<u>371</u>	<u>397</u>
At 1 January 2009, net of accumulated depreciation			
	26	371	397
Depreciation provided during the year	<u>(14)</u>	<u>(89)</u>	<u>(103)</u>
At 31 December 2009, net of accumulated depreciation			
	<u>12</u>	<u>282</u>	<u>294</u>
At 31 December 2009:			
Cost	48	482	530
Accumulated depreciation	<u>(36)</u>	<u>(200)</u>	<u>(236)</u>
Net carrying amount	<u>12</u>	<u>282</u>	<u>294</u>
31 December 2008			
At 1 January 2008:			
Cost	47	482	529
Accumulated depreciation	<u>(7)</u>	<u>(23)</u>	<u>(30)</u>
Net carrying amount	<u>40</u>	<u>459</u>	<u>499</u>
At 1 January 2008, net of accumulated depreciation			
	40	459	499
Additions	1	—	1
Depreciation provided during the year	<u>(15)</u>	<u>(88)</u>	<u>(103)</u>
At 31 December 2008, net of accumulated depreciation			
	<u>26</u>	<u>371</u>	<u>397</u>
At 31 December 2008:			
Cost	48	482	530
Accumulated depreciation	<u>(22)</u>	<u>(111)</u>	<u>(133)</u>
Net carrying amount	<u>26</u>	<u>371</u>	<u>397</u>

At 31 December 2009, certain of the Group's buildings with an aggregate net carrying amount of approximately RMB46,801,000 (2008: RMB52,001,000) and assets under construction with an aggregate net carrying amount of approximately RMB731,832,000 (2008: 265,906,000) were pledged to secure general banking facilities granted to the Group (note 38(a)).

At 31 December 2009 the Group was in the progress of obtaining the real estate ownership certificates of the Group's buildings with an aggregate net carrying amount of approximately RMB338,949,000 (2008: Nil) from the relevant government authorities.

15. Investment Properties

Group

	2009			2008		
	Completed investment properties	Investment property under construction	Total	Completed investment properties	Investment property under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	3,546,400	—	3,546,400	3,650,919	—	3,650,919
Transfers from properties under development — adoption of improvements to HKFRSs	—	11,813	11,813	—	—	—
Disposals	(117,340)	—	(117,340)	(80,950)	—	(80,950)
Gain/(loss) from a fair value adjustment	2,200	58,387	60,587	(23,569)	—	(23,569)
Carrying amount at 31 December	<u>3,431,260</u>	<u>70,200</u>	<u>3,501,460</u>	<u>3,546,400</u>	<u>—</u>	<u>3,546,400</u>

The Group's investment properties are situated in the PRC and the related land are held under the lease terms of 10 to 50 years.

The Group's investment properties were revalued on 31 December 2009 by CB Richard Ellis Limited, independent professionally qualified valuers, at approximately RMB3,501,460,000 (2008: RMB3,546,400,000) on an open market, existing use basis. Certain of the Group's investment properties are leased to third parties under operating lease, further summary details of which are included in note 39(a). The gross rental income received and receivable by the Group and the direct expenses in respect of these investment properties are summarised as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Gross rental income	98,701	74,526
Direct expenses	(19,057)	(13,799)
Net rental income	<u>79,644</u>	<u>60,727</u>

At 31 December 2009, the Group's investment properties with an aggregate carrying amount of approximately RMB3,046,504,000 (2008: RMB3,047,220,000) were pledged to secure general banking facilities granted to the Group (note 38(a)).

At 31 December 2009, the Group had not applied for the real estate ownership certificate of the Group's investment property under construction with an aggregate net carrying amount of approximately RMB70,200,000 (2008: Nil) with the relevant government authorities.

Further particulars of the Group's major investment properties are included on page 119 of the annual report.

16. Land Use Rights

	Group	
	2009	2008
	RMB'000	RMB'000
At 1 January	553,256	875,873
Additions	40,171	28,699
Amortisation recognised during the year	(6,576)	(3,304)
Reclassification	—	(348,012)
At 31 December	<u>586,851</u>	<u>553,256</u>
Current portion included in prepayments, deposits and other receivables	<u>(14,018)</u>	<u>(3,304)</u>
Non-current portion	<u><u>572,833</u></u>	<u><u>549,952</u></u>

The Group's land use rights are located in the PRC and held under the lease terms of 10 to 50 years.

Certain of the Group's land use rights of approximately RMB210,323,000 (2008: RMB79,548,000) were pledged to banks to secure general banking facilities granted to the Group (note 38(a)).

At 31 December 2009, the Group is in the progress of obtaining the land use right certificates of certain lands with an aggregate net carrying amount of approximately RMB20,319,000 (2008: RMB266,762,000) from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of the relevant land use rights grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration.

17. Interests in Subsidiaries

	Company	
	2009	2008
	RMB'000	RMB'000
Unlisted shares, at cost	300,306	300,306
Due from subsidiaries	6,738,406	5,385,254
Capital contribution in respect of employee share-based compensation	<u>668</u>	<u>—</u>
	<u><u>7,039,380</u></u>	<u><u>5,685,560</u></u>

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Happy Clear Consultants Limited . . .	British Virgin Islands/ Hong Kong	US\$1,000	100	—	Investment holding
Reach Luck Consultants Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Boom Faith International Limited . . .	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Rising Wave Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Good Excel Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Prime Way Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Hugeluck Investments Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Guangzhou Hejing Real Estate Development Limited (“Guangzhou Hejing”)*#	PRC	US\$99,000,000	—	100	Property development
Guangzhou Hejing Meifu Real Estate Development Limited#	PRC	US\$12,930,000	—	100	Property development
Guangzhou Hejing Yingfu Real Estate Development Limited#	PRC	RMB35,000,000	—	100	Property development
Guangzhou Xinhengchang Enterprise Development Limited*#	PRC	RMB792,000,000	—	100	Property development
Guangzhou Zhongtianying Real Estate Development Limited*#	PRC	US\$198,000,000	—	100	Property development
Guangzhou Tianjian Real Estate Co., Ltd*#	PRC	RMB1,485,000,000	—	100	Property development
Guangzhou Fuxin Property Management Limited*#	PRC	RMB7,000,000	—	100	Property management
Guangzhou Ningjun Property Management Limited*#	PRC	RMB7,000,000	—	100	Property management
Guangzhou Junzhao Property Operation Limited*#	PRC	RMB7,000,000	—	100	Property management
Chengdu Zhongtianying Real Estate Development Limited#	PRC	RMB550,000,000	—	100	Property development
Guangzhou Liangyu Investment Limited#	PRC	RMB30,000,000	—	94.5	Property development
Hainan New World Property Development (HK) Limited*#	PRC	HK\$15,000,000	—	100	Property development

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Suzhou Hejing Real Estate Development Limited (“Suzhou Hejing”) [#]	PRC	RMB990,000,000	—	100	Property development
Guangzhou Conghua Hejing Real Estate Development Limited (“Guangzhou Conghua Hejing”) ^{*#} .	PRC	US\$99,000,000	—	100	Property development
Beijing Hejing Real Estate Development Limited [#]	PRC	RMB70,000,000	—	100	Property development
Chengdu Zhaojing Real Estate Development Limited ^{*#}	PRC	HK\$767,000,000	—	100	Property development
Kunshan Baicheng Real Estate Development Limited ^{*#}	PRC	US\$29,900,000	—	100	Property development
Guangzhou Hejing Chuangzhan Hotel Limited [#]	PRC	RMB30,000,000	—	100	Hotel operation
Guangzhou Wanhui Real Estate Development Limited [#]	PRC	RMB30,000,000	—	100	Property development
Guangzhou Lihe Property Development Limited (“Guangzhou Lihe”)	PRC	RMB100,000,000	—	100	Property development

* These entities are registered as wholly-foreign-owned enterprises under PRC law.

The English names of these companies referred to in these financial statements represent management’s best effort to translate the Chinese names of those companies, as no English names have been registered.

^ This company was newly established during the year.

The Group acquired Guangzhou Lihe during the year. Further details of this acquisition are included in notes 31 and 36(a) to the financial statements.

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

18. Interest in an Associate/Amount Due to an Associate

	Group	
	2009 RMB’000	2008 RMB’000
Share of net assets	1,348,990	—

The amount due to an associate included in the Group’s current liabilities of RMB129,956,000 (2008: Nil) is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due to the associate approximates its fair value.

Particulars of the associate are as follows:

<u>Name</u>	<u>Particulars of issued shares held</u>	<u>Place of registration</u>	<u>Percentage of ownership interest attributable to the Group</u>	<u>Principal activity</u>
Suzhou City Kaiyu Real Estate Development Company Limited (“Suzhou Kaiyu”) . .	Registered capital of RMB1 each	PRC	29.94	Property development

The English name of this company referred to in these financial statements represents management’s best effort to translate the Chinese name of this company, as no English name has been registered.

The above investment in an associate is indirectly held by the Company through a wholly-owned subsidiary.

The following table illustrates the summarised financial information of the Group’s associate:

	<u>2009</u> <u>RMB’000</u>	<u>2008</u> <u>RMB’000</u>
Assets	1,694,367	—
Liabilities	(194,400)	—
Revenue	—	—
Loss	<u>(33)</u>	<u>—</u>

On 24 December 2009, China Construction Bank Corporation — Suzhou Branch (“CCB (Suzhou)”) (as settler and beneficiary) and Jiangxi International Trust Co., Ltd. (“Jiangxi International”) (as the trustee) entered into a trust agreement (the “Trust Agreement”) where a trust (the “Trust”) was set up with a maximum trust capital (the “Trust Capital”) of RMB901,000,000, which comprises 901,000,000 trust units of RMB1 each. Pursuant to the terms of the Trust Agreement, the Trust Capital shall be used to increase the registered capital of Suzhou Kaiyu, a non-wholly-owned subsidiary established by the Group in December 2009 to engage in a property development project in Xiaoxinqu, Suzhou. The Trust Capital was raised through the sale of an investment product (the “RMB Financing Product”) by CCB (Suzhou). The RMB Financing Product comprises 900,000,000 senior trust units (“Senior Units”) and 1,000,000 junior trust units (“Junior Units”), both at a subscription price of RMB1 each. All Senior Units are open for subscription by the public and all Junior Units were subscribed by Suzhou Hejing. The term of the RMB Financing Product is 1.5 years starting from the date when the Trust was established (“Trust Establishment Date”, which is 24 December 2009), subject to early termination upon the occurrence of certain events. Early redemption of the Senior Units or Junior Units is not allowed.

In connection with the Trust, the following agreements were entered into on 24 December 2009:

- (a) The Trustee, Suzhou Hejing and Suzhou Jinzhu Property Development Co., Ltd. (“Suzhou Jinzhu”) entered into a capital increase agreement (the “Capital Increase Agreement”), pursuant to which the registered capital of Suzhou Kaiyu was increased from RMB400,000,000 to RMB1,500,000,000 by the capital injection (the “Capital Injection”) of (i) RMB901,000,000 by the Trustee; (ii) RMB89,000,000 by Suzhou Hejing; and (iii) RMB110,000,000 by Suzhou Jinzhu, immediately before the completion of the Capital Injection, Suzhou Kaiyu is owned as to 90% and 10% by Suzhou Hejing and

Suzhou Jinzhu, respectively. Upon completion of the Capital Injection, Suzhou Kaiyu is owned as to 60.06%, 29.94% and 10.00% by the Trust, Suzhou Hejing and Suzhou Jinzhu, respectively.

- (b) Suzhou Hejing and CCB (Suzhou) entered into a product units option agreement (the “Product Units Option Agreement”), pursuant to which CCB (Suzhou) is entitled to exercise an option requiring Suzhou Hejing to acquire all the Senior Units at a consideration equivalent to an amount determined as “Number of Senior Units of RMB1 each X (1 + 11.5% X number of investment days in the Senior Units/360)” (the “Transfer Fee”), from CCB (Suzhou) upon the occurrence of certain material adverse events (the “Material Adverse Events”). If no Material Adverse Event occurs, Suzhou Hejing is entitled to acquire all the Senior Units upon expiry of one year after the Trust Establishment Date. Suzhou Hejing should complete the acquisition of all the Senior Units and pay the remaining consideration no later than one day before the expiry of 1.5 years after the Trust Establishment Date.
- (c) Suzhou Hejing and CCB (Suzhou) entered into a pledge agreement (the “Pledge Agreement”), pursuant to which Suzhou Hejing pledged all its equity interests in Suzhou Kaiyu to CCB (Suzhou) to secure the performance and obligations of Suzhou Hejing under the Product Units Option Agreement as mentioned in (b) above.
- (d) The Company and Guangzhou Hejing, a wholly-owned subsidiary of the Group entered into guarantee agreements (the “Guarantee Agreements”) with CCB (Suzhou), pursuant to which the Company and Guangzhou Hejing provided guarantees to CCB (Suzhou) to secure the performance and obligations of Suzhou Hejing under the Product Units Option Agreement as mentioned in (b) above.
- (e) The trustee, CCB (Suzhou), Suzhou Hejing, Suzhou Jinzhu and Suzhou Kaiyu entered into a supervision agreement (the “Supervision Agreement”), pursuant to which the Trust Capital should be deposited to the custodian bank account maintained with and managed by CCB (Suzhou) in accordance with such Supervision Agreement.

Upon the completion of the capital injection, Suzhou Kaiyu became an associate of the Group as the Group has no unilateral control over Suzhou Kaiyu, but is able to exercise significant influence over Suzhou Kaiyu.

19. Interests in Jointly-controlled Entities/Amount Due from a Jointly-controlled Entity

	Group	
	2009	2008
	RMB'000	RMB'000
Share of net assets	88,582	20,487
Advances to jointly-controlled entities	1,139,454	—
	<u>1,228,036</u>	<u>20,487</u>

The advances to jointly-controlled entities are unsecured, interest-free and not repayable within 12 months.

The amount due from a jointly-controlled entity included in the Group’s current assets of RMB46,999,000 (2008: RMB50,314,000) is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from a jointly-controlled entity approximates to its fair value.

Particulars of the jointly-controlled entities are as follows:

<u>Name</u>	<u>Particulars of issued shares held</u>	<u>Place of registration</u>	<u>Percentage of</u>			<u>Principal activity</u>
			<u>Ownership interest</u>	<u>Voting power</u>	<u>Profit sharing</u>	
Guangzhou Weibai Real Estate Development Limited#	Registered capital of RMB1 each	PRC	50	50	50	Property development
Precious Wave Investments Limited	Ordinary shares of US\$1 each	British Virgin Islands	50	50	50	Investment holding
Quality Express Limited	Ordinary shares of HK\$1 each	Hong Kong	50	50	50	Investment holding
Guangzhou Fujing Real Estate Development Limited#	Registered capital of HK\$1 each	PRC	33	33	33	Property development

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese name of these companies, as no English names have been registered.

The above investments in the jointly-controlled entities are indirectly held by the Company through wholly-owned subsidiaries.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	6,614	—
Current assets	1,499,720	193,154
Current liabilities	<u>(1,417,752)</u>	<u>(172,667)</u>
Net assets.	<u>88,582</u>	<u>20,487</u>
Share of the jointly-controlled entities' results:		
Revenue.	294,544	57,644
Other income	<u>375</u>	<u>264</u>
	<u>294,919</u>	<u>57,908</u>
Total expenses	(189,264)	(38,868)
Tax	<u>(40,631)</u>	<u>(8,458)</u>
Profit after tax	<u>65,024</u>	<u>10,582</u>

20. Long Term Prepayment

At 31 December 2008, the Group's long term prepayment represented partial payment of a parcel of land in Guangzhou, Guangdong Province, the PRC. Pursuant to a joint venture agreement signed by the Group and another two joint venture partners, a joint venture company ("JV Co") is set up to undertake a property development project on the aforementioned parcel of land. The Group and the other two joint venture partners are entitled to equity interests in the JV Co in the respective proportions of 33.33%, 33.33% and 33.34%. As at 31 December 2009, the Group's capital injection into the JV Co had been completed and the amount prepaid by the Group was reclassified to an advance to a jointly-controlled entity included in "interests in jointly-controlled entities" in the consolidated statement of financial position (note 19).

21. Properties Under Development

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Properties under development expected to be recovered:		
Within one year	13,612,605	9,142,235
After more than one year	<u>338,497</u>	<u>2,736,325</u>
	<u>13,951,102</u>	<u>11,878,560</u>

The Group's properties under development were located in the PRC.

Certain of the Group's properties under development of approximately RMB3,953,230,000 (2008: RMB1,072,890,000) were pledged to secure general banking facilities granted to the Group (note 38(a)).

Included in the Group's properties under development as at 31 December 2009 were land costs with an aggregate carrying amount of approximately RMB860,209,000 (2008: RMB4,724,637,000) in which the Group is in the progress of obtaining land use right certificates from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of the relevant land use rights grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration.

Further particulars of the Group's major properties under development are set out on page 119 of the annual report.

22. Completed Properties Held for Sale

The Group's completed properties held for sale are located in the PRC. All completed properties held for sale are stated at cost.

At 31 December 2009, certain of the Group's completed properties held for sale of approximately RMB514,362,000 (2008: RMB273,533,000) were pledged to secure general banking facilities granted to the Group (note 38(a)).

Further particulars of the Group's major completed properties held for sale are set out on page 119 of the annual report.

23. Trade Receivables

Trade receivables consist of receivables from the sale of properties and rentals under operating leases. The payment terms of the sale of properties are stipulated in the relevant sale and purchase agreements. An aged analysis of the trade receivables as at the end of the reporting period is as follows:

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Within 3 months.	114,644	20,643
4 to 6 months.	12,830	2,010
7 to 12 months.	12,162	7,280
Over 1 year	<u>7,777</u>	<u>780</u>
	<u>147,413</u>	<u>30,713</u>

An ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Neither past due nor impaired	127,474	22,653
1 to 6 months past due	<u>19,939</u>	<u>8,060</u>
	<u>147,413</u>	<u>30,713</u>

The Group's trade receivables relate to a large number of diversified customers. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there was no recent history of default and the balances are still considered fully recoverable.

24. Prepayments, Deposits and Other Receivables

	Group		Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	240,892	60,669	87	2
Deposits and other receivables	212,147	1,008,818	237	2,070
	<u>453,039</u>	<u>1,069,487</u>	<u>324</u>	<u>2,072</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

25. Taxes Recoverable/Taxes Payable

(a) Taxes recoverable

	Group	
	2009	2008
	RMB'000	RMB'000
Prepaid CIT	5,477	2,513
Prepaid LAT	19,015	803
	<u>24,492</u>	<u>3,316</u>

(b) Taxes payable

	Group	
	2009	2008
	RMB'000	RMB'000
CIT payable	338,660	239,353
LAT payable	1,080,148	772,936
	<u>1,418,808</u>	<u>1,012,289</u>

26. Cash and Cash Equivalents and Restricted Cash

	Notes	Group		Company	
		2009	2008	2009	2008
		RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances		3,572,872	1,362,378	172,551	52,480
Time deposits		37,702	10,573	8,882	8,895
		<u>3,610,574</u>	<u>1,372,951</u>	<u>181,433</u>	<u>61,375</u>
Less: Restricted cash	(a)	<u>(1,069,876)</u>	<u>(205,942)</u>	—	—
Cash and cash equivalents		<u>2,540,698</u>	<u>1,167,009</u>	<u>181,433</u>	<u>61,375</u>
Denominated in RMB	(b)	3,362,484	1,079,811	—	—
Denominated in other currencies		248,090	293,140	181,433	61,375
		<u>3,610,574</u>	<u>1,372,951</u>	<u>181,433</u>	<u>61,375</u>

Notes:

- (a) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for construction of the relevant properties. As at 31 December 2009, such guarantee deposits amounted to approximately RMB1,066,876,000 (2008: RMB205,942,000).

At 31 December 2009, certain of the Group's time deposit of RMB3,000,000 (2008: Nil), was pledged to secured general banking facilities granted to the Group (note 38(a)).

- (b) The RMB is not freely convertible into other currencies, however, subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for one day and earn interest at the respective short term time deposit rates.

27. Trade Payables

An aged analysis of the trade payables as at the end of the reporting period is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Due within one year or on demand.	<u>1,415,470</u>	<u>2,879,007</u>

The trade payables are non-interest-bearing and are normally settled on terms of three to six months.

28. Other Payables and Accruals

	Notes	Group		Company	
		2009	2008	2009	2008
		RMB'000	RMB'000	RMB'000	RMB'000
Deposits received and receipts in advance		3,308,456	803,682	—	—
Other payables and accruals	(a)	1,710,205	1,259,714	4,172	1,759
Deferred income	(b)	<u>203,700</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u>5,222,361</u>	<u>2,063,396</u>	<u>4,172</u>	<u>1,759</u>

Notes:

- (a) During the year, the Group prepaid RMB50,000,000 to CCB (Suzhou) for the purchase of the Senior Units, the remaining consideration in the principal amount of RMB850,000,000 was recorded in other payables of the Group as at 31 December 2009. Details of the arrangement are set out in note 18 to the financial statements.
- (b) The deferred income is related to a government grant received in 2009 for a project in an economic and technological development zone in Guangzhou, Guangdong Province, the PRC.
- (c) Other payables are non-interest-bearing and are normally settled on terms of three to six months.

29. Interest-bearing Bank Loans

	Group					
	2009			2008		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured	5.40–8.32	2010	408,210	8.59	2009	179,241
Bank loans — unsecured	4.50–8.32	2010	1,438,693	5.67–6.80	2009	139,589
Current portion of long term bank loans — secured	5.13-8.70 HIBOR + 1.25–	2010	480,246	5.95–8.69 HIBOR + 1.15–	2009	403,388
— denominated in HK\$, secured	HIBOR + 4.50	2010	211,244	HIBOR + 3.50	2009	306,870
— unsecured	5.13–7.18	2010	28,235	7.18	2009	29,840
			<u>2,566,628</u>			<u>1,058,928</u>
Non-current						
Bank loans — secured	4.86-8.90 HIBOR + 1.25–	2011–2019	4,745,085	6.57–8.90 HIBOR + 1.15–	2010–2018	2,171,020
Bank loans — denominated in HK\$, secured	HIBOR + 4.50	2011–2014	594,107	HIBOR + 1.25	2010–2014	608,539
Bank loans — unsecured	5.13–7.18	2011	479,625	5.67–8.32	2010–2011	2,155,694
Bank loans — denominated in HK\$, unsecured.	HIBOR + 3.00	2012	260,035	—	—	—
			<u>6,078,852</u>			<u>4,935,253</u>
			<u>8,645,480</u>			<u>5,994,181</u>

	Company					
	2009			2008		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Non-current						
Bank loans — denominated in HK\$, unsecured.	HIBOR + 3.00	2012	260,035	—	—	—

	Group		Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand.	2,566,628	1,058,928	—	—
In the second year	1,790,408	2,067,765	—	—
In the third to fifth years, inclusive	3,451,974	2,683,941	260,035	—
Beyond five years	836,470	183,547	—	—
	<u>8,645,480</u>	<u>5,994,181</u>	<u>260,035</u>	<u>—</u>

Certain of the Group's bank loans are secured by the Group's assets, details of which are disclosed in note 38.

Except for the above mentioned secured bank loans denominated in HK\$, all bank loans were denominated in RMB as at the end of reporting period.

In the opinion of the directors of the Company, the carrying amounts of the Group's bank loans approximate to their fair values.

30. Deferred Tax

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

Deferred tax liabilities

Group

	2009				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Revaluation of investment properties RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2009	11,017	38,214	631,295	17,389	697,915
Deferred tax charged/(credited) to the income statement during the year (<i>note 10</i>)	6,474	—	(5,531)	(17,389)	(16,446)
Gross deferred tax liabilities at 31 December 2009	<u>17,491</u>	<u>38,214</u>	<u>625,764</u>	<u>—</u>	<u>681,469</u>

Deferred tax assets

Group

	2009					
	Depreciation in excess of related depreciation allowance RMB'000	Provision of LAT RMB'000	Losses available for offsetting against future taxable profits RMB'000	Accruals RMB'000	Government grant RMB'000	Total RMB'000
At 1 January 2009	215	211,283	14,023	14,143	—	239,664
Deferred tax credited to the income statement during the year (<i>note 10</i>)	352	87,809	9,933	66,323	50,925	215,342
Gross deferred tax assets at 31 December 2009	<u>567</u>	<u>299,092</u>	<u>23,956</u>	<u>80,466</u>	<u>50,925</u>	<u>455,006</u>
Net deferred tax recognised at 31 December 2009						<u>(226,463)</u>

Deferred tax liabilities

Group

	2008				
	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from acquisition of a subsidiary	Revaluation of investment properties	Withholding taxes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	—	38,214	650,956	—	689,170
Deferred tax charged/(credited) to the income statement during the year (note 10)	11,017	—	(19,661)	17,389	8,745
Gross deferred tax liabilities at 31 December 2008	<u>11,017</u>	<u>38,214</u>	<u>631,295</u>	<u>17,389</u>	<u>697,915</u>

Deferred tax assets

Group

	2008				
	Depreciation in excess of related depreciation allowance	Provision of LAT	Losses available for offsetting against future taxable profits	Accruals	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	—	161,885	—	—	161,885
Deferred tax credited to the income statement during the year (note 10)	215	49,398	14,023	14,143	77,779
Gross deferred tax assets at 31 December 2008	<u>215</u>	<u>211,283</u>	<u>14,023</u>	<u>14,143</u>	<u>239,664</u>
Net deferred tax recognised at 31 December 2008					<u>(458,251)</u>

For the purpose of the presentation of the statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Net deferred tax assets recognised in the consolidated statement of financial position	398,325	168,453
Net deferred tax liabilities recognised in the consolidated statement of financial position	<u>(624,788)</u>	<u>(626,704)</u>
	<u>(226,463)</u>	<u>(458,251)</u>

The Group has unutilised tax losses of approximately RMB110,698,000 (2008: RMB57,355,000) that can be carried forward for five years for offsetting against future taxable profits of the entities in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses amounting to approximately RMB14,874,000 (2008: RMB1,263,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

31. Deferred Revenue

The Group entered into an agreement with the vendor (the “Vendor”) on 17 September 2009, pursuant to which the Group should pay a cash consideration of RMB100,000,000; and transfer certain apartments and the Group’s entire equity interest in a new company to be established by the Group under the laws of the PRC, which will hold certain properties to be built by the Group on portion of the land of Guangzhou Lihe (collectively, the “Transfer Properties”) of RMB700,000,000 to the Vendor, in exchange for the entire equity interest in Guangzhou Lihe. The exchange of the Transfer Properties is accounted for as a transaction which generates revenue. As at 31 December 2009, the Transfer Properties were still under construction and had not been transferred to the Vendor. Accordingly, the above revenue is deferred and will be recognised upon the delivery of the Transfer Properties. Further details of the acquisition of Guangzhou Lihe are disclosed in note 36(a) to these financial statements.

32. Share Capital

Shares

	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Authorised:		
8,000,000,000 (2008: 8,000,000,000) ordinary shares of HK\$0.10 each	<u>786,113</u>	<u>786,113</u>
Issued and fully paid:		
2,893,750,000 (2008: 2,593,750,000) ordinary shares of HK\$0.10 each	<u>280,538</u>	<u>254,093</u>

During the year, the movements in share capital were as follows:

- (a) The Company issued an aggregate of 300,000,000 ordinary shares at HK\$5.10 and the aggregate consideration received, net of transaction costs, was approximately HK\$1,501,107,000 (equivalent to approximately RMB1,323,226,000).

- (b) The Company repurchased an aggregate of 600,000 ordinary shares at approximately HK\$3,454,000 (equivalent to approximately RMB3,041,000) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the aggregate consideration paid (including transaction costs) was approximately HK\$3,458,000 (equivalent to approximately RMB3,045,000). The repurchased shares were subsequently cancelled on 8 January 2010.

A summary of the transactions in the Company’s issued share capital is as follows:

	Number of ordinary shares	Nominal value of ordinary shares HK\$’000	Equivalent nominal value of ordinary shares RMB’000	Share premium RMB’000	Total RMB’000
At 1 January 2008 and 31 December 2008	2,593,750,000	259,375	254,093	5,321,931	5,576,024
Issue of shares	300,000,000	30,000	26,445	1,322,250	1,348,695
Share issue expenses	—	—	—	(25,469)	(25,469)
At 31 December 2009	<u>2,893,750,000</u>	<u>289,375</u>	<u>280,538</u>	<u>6,618,712</u>	<u>6,899,250</u>

33. Share Option Scheme

Pursuant to a written resolution of the shareholders of the Company on 11 June 2007, the Scheme was conditionally approved. On 3 July 2007, the aforesaid approval of the Scheme became unconditional and effective as the Company’s shares were listed on the Stock Exchange. The Scheme is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Group’s directors, including independent non-executive directors, any full-time or part-time employees of the Group, suppliers, customers, advisers, consultants and agents to the Group. Upon becoming effective, the Scheme will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme must not in aggregate exceed 10% of the shares of the Company in issue immediately following completion of the global offering and the capitalisation issue of the Company’s shares in 2007. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme at any time shall not exceed 30% of the shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders’ approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the board of directors of the Company in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer and (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

On 18 December 2009, the Company offered to grant 8,457,000 share options to the grantees, including the board of directors of the Company and certain employees of the Group. None of the share options were exercised by the grantees or cancelled by the Company as at the date of approval of these financial statements.

Details of the share option outstanding at the end of the reporting period are as follows:

	<u>Number of shares options</u>
Outstanding at 1 January 2009	—
Granted and accepted during the year	<u>8,457,000</u>
Outstanding at 31 December 2009	<u><u>8,457,000</u></u>

The exercise price of the outstanding share options is HK\$6.24 per share.

The closing price of the Company’s shares on 18 December 2009, the date of grant, was HK\$6.23 per share.

The shares options granted to the executive directors of the Company and employees of the Company and its subsidiaries, associates and jointly controlled entities are exercisable during the following periods:

- (i) up to 25% of the share options granted to each grantee at any time after the expiration of 12 months from 18 December 2009;
- (ii) up to 25% of the share options granted to each grantee at any time after the expiration of 24 months from 18 December 2009;
- (iii) up to 25% of the share options granted to each grantee at any time after the expiration of 36 months from 18 December 2009;
- (iv) all the remaining share options granted to each grantee at any time after the expiration of 48 months from 18 December 2009,

and in each case, not later than 17 December 2014.

The share options granted to the independent non-executive directors of the Company are exercisable at any time prior to 17 December 2014.

HK\$1.00 is payable for acceptance of grant of share options by each grantee.

The fair value of the share options determined at the date of grant using the Model was approximately RMB19,938,000 of which the Group recognised a share option expense of approximately RMB1,194,000 during the year ended 31 December 2009.

The following assumptions were used to calculate the fair values of the share options:

	<u>18 December 2009</u>
Grant date share price	HK\$6.23
Exercise price	HK\$6.24
Expected life	5 years
Expected volatility	63%–69%
Expected dividend yield	1.48%
Risk-free interest rate	0.72%–1.21%

The Model has been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the share options.

At each reporting date, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in income statement, with a corresponding adjustment to the share options reserve.

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 8,457,000 additional ordinary shares of the Company and additional share capital of approximately HK\$846,000 (equivalent to approximately RMB745,000) and share premium of approximately HK\$51,926,000 (equivalent to approximately RMB45,720,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 8,457,000 share options outstanding under the Scheme, which represented approximately 0.3% of the Company's shares in issue at that date.

34. Reserves

(a) Group

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

Pursuant to the relevant laws and regulations in the PRC, the Group's subsidiaries which are registered in the PRC shall appropriate certain percentage of profit for the year (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds which are restricted as to use. During the year ended 31 December 2009, the Group appropriated approximately RMB74,559,000 to such reserve funds in accordance with relevant law and regulations in the PRC (2008: RMB39,001,000).

(b) Company

		Share premium account	Contributed surplus	Exchange fluctuation reserve	Equity- settled share option reserve	Retained profits	Total
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2008		5,321,931	308,006	(234,304)	—	93,337	5,488,970
Profit for the year		—	—	—	—	321,485	321,485
Exchange realignment . .		—	—	(316,903)	—	—	(316,903)
Proposed final 2008 dividend	12	—	—	—	—	(77,813)	(77,813)
At 31 December 2008		5,321,931	308,006	(551,207)	—	337,009	5,415,739
Issue of shares .		1,322,250	—	—	—	—	1,322,250
Share issue expenses		(25,469)	—	—	—	—	(25,469)
Share option expenses	33	—	—	—	1,194	—	1,194
Loss for the year		—	—	—	—	(23,862)	(23,862)
Exchange realignment . .		—	—	(10,125)	—	—	(10,125)
Proposed final 2009 dividend	12	—	—	—	—	(144,658)	(144,658)
At 31 December 2009		<u>6,618,712</u>	<u>308,006</u>	<u>(561,332)</u>	<u>1,194</u>	<u>168,489</u>	<u>6,535,069</u>

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation of the Group in preparation for the listing of the Company, over the nominal value of the Company's shares in exchange therefor.

The equity-settled share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

35. Interests in Jointly-controlled Operations

The Group has entered into three (2008: three) joint venture arrangements in the form of jointly-controlled operations with certain parties, to jointly undertake three (2008: three) property development projects located in Guangzhou, Guangdong Province, the PRC. As at 31 December 2009, the aggregate amounts of assets and liabilities recognised in respect of these jointly-controlled operations were as follows:

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Assets	964,130	1,024,521
Liabilities	<u>(139,665)</u>	<u>(57,576)</u>

36. Notes to the Consolidated Statement of Cash Flows

(a) Acquisition of a subsidiary

During the year ended 31 December 2009, the Group acquired certain properties under development in the PRC and their related assets and liabilities from the Vendor. The acquisition was made by way of acquiring the entire equity interest in Guangzhou Lihe and since then, Guangzhou Lihe became a wholly-owned subsidiary of the Group. This transaction was accounted for as purchase of assets and liabilities rather than as business combination as the subsidiary acquired is a property holding company that does not constitute a business.

The net assets acquired in the acquisition of Guangzhou Lihe are as follows:

Net assets acquired:	<u>RMB'000</u>
Property, plant and equipment	244
Properties under development	2,460,209
Prepayments, deposits and other receivables	65,818
Cash and bank balances	5,556
Other payables	<u>(1,731,827)</u>
	<u>800,000</u>
	<u>RMB'000</u>
Satisfied by:	
Cash	100,000
Transfer Properties	<u>700,000</u>
	<u>800,000</u>

The consideration is to be satisfied by cash of RMB100,000,000, certain apartments and the Group's entire equity interest in a new company to be established by the Group under the laws of the PRC, which will hold certain properties to be built by the Group on portion of the land of Guangzhou Lihe, to the Vendor.

An analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition of Guangzhou Lihe is as follows:

	<u>RMB'000</u>
Cash consideration	100,000
Cash and bank balances acquired	<u>(5,556)</u>
Net cash outflow of cash and cash equivalents in respect of the acquisition of a subsidiary.	<u>94,444</u>

(b) Acquisition of additional interest in Gain Right Limited (“Gain Right”)

During the year ended 31 December 2009, the Group acquired an additional 35% equity interest of Gain Right, increasing its ownership to 100%. A cash consideration of approximately RMB716.0 million was paid to the then shareholder. The carrying value of the additional interest acquired was approximately RMB718.2 million. The difference of approximately RMB2.2 million between the consideration and the carrying value of the interest acquired was recognised as capital reserve within equity.

(c) Dissolution of a subsidiary

During the year ended 31 December 2009, Dongguan Hejing Hanyuan Real Estate Limited[#], 90% owned subsidiary of the Group was dissolved. Cash balance of approximately RMB2.0 million was distributed to the minority shareholder of the subsidiary.

(d) Major non-cash transaction

In connection with the acquisition of Guangzhou Lihe as mentioned in (a) above, the Group and the Vendor further entered into a loan assignment agreement on 17 September 2009, pursuant to which the Vendor agreed to assign a loan of approximately RMB1,695.0 million to the Group for a consideration of the same amount.

[#] The English name of this company referred to in these financial statements represents management’s best effort to translate the Chinese names of that company, as no English name has been registered.

37. Contingent Liabilities

At the end of the reporting period, contingent liabilities of the Group not provided for in the financial statements were as follows:

	Notes	<u>2009</u> RMB'000	<u>2008</u> RMB'000
Guarantees in respect of mortgage facilities for certain purchasers of the Group's properties.	(a)	4,067,148	1,624,855
Guarantees given to bank in connection with bank loans granted to a third party	(b)	<u>700,000</u>	<u>—</u>
		<u>4,767,148</u>	<u>1,624,855</u>

Notes:

(a) As at 31 December 2009 and 2008, the Group provided guarantees in respect of mortgage facilities granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled but not limited to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the board of directors of the Company considers that in case of default in payments, the net realisable value of the related properties will be sufficient to cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the years ended 31 December 2009 and 2008 for the guarantees.

(b) Prior to the entering into the agreement in respect of the transfer of the equity interest of Guangzhou Lihe, the Vendor had obtained a bank loan in the amount of RMB700,000,000. The land use right of the land held by Guangzhou Lihe had been pledged to the bank for such a bank facility. The Group has agreed to provide a guarantee in favour of the bank to secure such bank loan so as to procure the discharge of the pledge of the land use right held by Guangzhou Lihe.

Pursuant to the aforementioned agreement, (i) the Group is not obligated to transfer the properties to the Vendor in the event that the Vendor fails to deliver the land use right certificates of Guangzhou Lihe upon the discharge of the pledge of Guangzhou Lihe's land; and (ii) the Group is entitled to deduct from the balance of the consideration of RMB700,000,000 on a dollar-to-dollar basis any loss or damage suffered by it as a result of the Vendor's failure or inability to repay the bank loan for more than three months. In such event, the shareholding of the new company to be transferred or the gross floor area of the apartments to be built on Guangzhou Lihe's land will be adjusted downward accordingly. Based on these agreed terms, the board of directors of the Company considers that the chance of the Group suffering loss is minimal and therefore no provision has been made in the financial statements for the year ended 31 December 2009 for the guarantee.

As at 31 December 2009, the Company had contingent liabilities not provided for in the financial statements in respect of guarantees given to certain banks for loans granted to subsidiaries amounted to RMB3,088,108,000 (2008: RMB1,100,473,000).

38. Pledge of Assets

- (a) At the end of the reporting period, the following assets of the Group were pledged to certain banks to secure general banking facilities granted to the Group:

	Notes	Group	
		2009	2008
		RMB'000	RMB'000
Buildings	14	46,801	52,001
Assets under construction	14	731,832	265,906
Land use rights	16	210,323	79,548
Investment properties	15	3,046,504	3,047,220
Properties under development	21	3,953,230	1,072,890
Completed properties held for sale	22	514,362	273,533
Time deposit	26	3,000	—
		<u>8,506,052</u>	<u>4,791,098</u>

- (b) At 31 December 2009, the equity interests of Guangzhou Conghua Hejing and Champ Joyment Limited, which are wholly-owned subsidiaries of the Group and incorporated in the PRC and Hong Kong, respectively, are pledged to certain banks for the loans granted to the Group.

39. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Within one year	108,282	92,044
In the second to fifth years, inclusive	199,049	217,556
After five years.	<u>62,720</u>	<u>56,685</u>
	<u>370,051</u>	<u>366,285</u>

(b) As lessee

The Group and the Company lease certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 3 years.

At 31 December 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Within one year	2,153	2,535	749	—
In the second to fifth years, inclusive	385	784	—	—
	<u>2,538</u>	<u>3,319</u>	<u>749</u>	<u>—</u>

40. Commitments

In addition to the operating lease commitments detailed in note 39(b) above, the Group had the following capital commitments at the end of the reporting period:

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Contracted, but not provided for:		
Property, plant and equipment — Assets under construction	451,210	301,444
Properties being developed by the Group for sale.	2,276,794	2,146,067
Investment in a jointly-controlled entity	—	898,930
	<u>2,728,004</u>	<u>3,346,441</u>

The Company did not have any commitment at the end of the reporting period.

41. Related Party Transactions

(a) *Outstanding balances with related parties:*

Details of the Group's balances with its associate and jointly-controlled entities are included in notes 18 and 19 to the financial statements respectively.

(b) *Compensation of key management personnel of the Group:*

	<u>2009</u>	<u>2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Short term employee benefits	16,581	12,305
Equity-settled share option expenses.	685	—
Post-employment benefits	406	483
Total compensation paid to key management personnel .	<u>17,672</u>	<u>12,788</u>

Further details of directors' emoluments are included in note 8 to the financial statements.

42. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets — Loan and receivables

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	RMB'000	RMB'000
Trade receivables (<i>note 23</i>)	147,413	30,713
Financial assets included in prepayments, deposits and other receivables (<i>note 24</i>)	212,147	1,008,818
Due from jointly-controlled entities (<i>note 19</i>)	1,186,453	50,314
Restricted cash (<i>note 26</i>)	1,069,876	205,942
Cash and cash equivalents (<i>note 26</i>)	2,540,698	1,167,009
	<u>5,156,587</u>	<u>2,462,796</u>

Financial liabilities — Financial liabilities at amortised cost

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	RMB'000	RMB'000
Trade payables (<i>note 27</i>)	1,415,470	2,879,007
Financial liabilities included in other payables and accruals (<i>note 28</i>)	1,710,205	1,259,714
Due to an associate (<i>note 18</i>)	129,956	—
Interest-bearing bank loans (<i>note 29</i>)	8,645,480	5,994,181
	<u>11,901,111</u>	<u>10,132,902</u>

Financial assets — Loan and receivables

	<u>Company</u>	
	<u>2009</u>	<u>2008</u>
	RMB'000	RMB'000
Due from subsidiaries (<i>note 17</i>)	6,738,406	5,385,254
Financial assets included in prepayments, deposits and other receivables (<i>note 24</i>)	237	2,070
Cash and cash equivalents (<i>note 26</i>)	181,433	61,375
	<u>6,920,076</u>	<u>5,448,699</u>

Financial liabilities — Financial liabilities at amortised cost

	<u>Company</u>	
	<u>2009</u>	<u>2008</u>
	RMB'000	RMB'000
Financial liabilities included in other payables and accruals (<i>note 28</i>)	4,172	1,759
Interest-bearing bank loans (<i>note 29</i>)	260,035	—
	<u>264,207</u>	<u>1,759</u>

43. Financial Risk Management Objectives and Policies

The financial assets of the Group mainly include cash and cash equivalents, restricted cash, trade receivables, deposits and other receivables and advance to/amount due from jointly-controlled entities. The financial liabilities of the Group mainly include trade payables, other payables and accruals, amount due to an associate and bank loans.

The carrying amounts of the Group's financial instruments approximated to their fair values as at each of the reporting dates. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below:

Business risk

The Group conducts its operations in the PRC, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the property development industry.

Interest rate risk

The Group has no significant interest-bearing assets. The Group's exposure to changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its cash flow interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Group		
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		RMB'000	RMB'000
2009			
RMB.	200	(138,819)	—
Hong Kong dollar	<u>200</u>	<u>(19,618)</u>	<u>—</u>
RMB.	(200)	138,819	—
Hong Kong dollar	<u>(200)</u>	<u>19,618</u>	<u>—</u>

	Group		
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		RMB'000	RMB'000
2008			
RMB.	200	(95,834)	—
Hong Kong dollar	<u>200</u>	<u>(17,615)</u>	<u>—</u>
RMB.	(200)	95,834	—
Hong Kong dollar	<u>(200)</u>	<u>17,615</u>	<u>—</u>

* Excluding retained profits

Foreign currency risk

The Group's businesses are located in the PRC and all transactions are mainly conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB except for the Hong Kong dollar bank loan and a short term bank deposit in Hong Kong dollars. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Group		
	Increase/ (decrease) in HK\$ rate	Increase/ (decrease) in US\$ rate	Increase/ (decrease) in profit before tax
	%	%	RMB'000
2009			
If RMB weakens against Hong Kong dollar	(5)	n/a	(40,959)
If RMB strengthens against Hong Kong dollar	5	n/a	40,959
If RMB weakens against United States dollar	n/a	(5)	94
If RMB strengthens against United States dollar	<u>n/a</u>	<u>5</u>	<u>(94)</u>

	Group		
	Increase/ (decrease) in HK\$ rate	Increase/ (decrease) in US\$ rate	Increase/ (decrease) in profit before tax
	%	%	RMB'000
2008			
If RMB weakens against Hong Kong dollar	(5)	n/a	(38,300)
If RMB strengthens against Hong Kong dollar	5	n/a	38,300
If RMB weakens against United States dollar	n/a	(5)	7,186
If RMB strengthens against United States dollar	n/a	5	(7,186)

Credit risk

The Group has no concentration on credit risk. The Group's cash and cash equivalents are mainly deposits with state-owned banks in the PRC and high-credit rating banks in Hong Kong.

The carrying amounts of trade and other receivables, cash and cash equivalents included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligation of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 37.

Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents through the sales proceeds generating from the sale of the properties and having available funding through an adequate amount of credit facilities to meet the Group's construction commitments. The board of directors of the Company expected that the sales in 2010 will be higher than that of 2009 and additional bank loans will be available to finance the Group's existing and future property development projects. The Group has a number of alternative plans to mitigate the potential impacts on the Group's working capital should there be significant adverse changes in the economic environment. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	—	238,834	2,759,137	5,807,544	956,983	9,762,498
Trade payables	1,415,470	—	—	—	—	1,415,470
Other payables and accruals	860,205	—	850,000	—	—	1,710,205
Guarantees in respect of mortgage facilities for certain purchasers of the Group's properties.	4,067,148	—	—	—	—	4,067,148
Guarantees given to bank in connection with bank loans granted to the Vendor	700,000	—	—	—	—	700,000
	<u>7,042,823</u>	<u>238,834</u>	<u>3,609,137</u>	<u>5,807,544</u>	<u>956,983</u>	<u>17,655,321</u>
	2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	220,473	298,425	952,240	5,215,309	211,167	6,897,614
Trade payables	2,879,007	—	—	—	—	2,879,007
Other payables and accruals	1,259,714	—	—	—	—	1,259,714
Guarantees in respect of mortgage facilities for certain purchasers of the Group's properties.	1,624,855	—	—	—	—	1,624,855
	<u>5,984,049</u>	<u>298,425</u>	<u>952,240</u>	<u>5,215,309</u>	<u>211,167</u>	<u>12,661,190</u>

Company

	2009					
	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to less than</u>		<u>Over 5 years</u>	<u>Total</u>
			<u>12 months</u>	<u>1 to 5 years</u>		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loan	—	2,099	6,298	271,232	—	279,629
Other payables and accruals	4,172	—	—	—	—	4,172
Guarantees given to bank in connection with bank loans granted to subsidiaries	<u>3,088,108</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,088,108</u>
	<u>3,092,280</u>	<u>2,099</u>	<u>6,298</u>	<u>271,232</u>	<u>—</u>	<u>3,371,909</u>
	2008					
	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to less than</u>		<u>Over 5 years</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals	1,759	—	—	—	—	1,759
Guarantees given to bank in connection with bank loans granted to subsidiaries	<u>1,100,473</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,100,473</u>
	<u>1,102,232</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,102,232</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 2008.

The Group monitors capital using a gearing ratio, which is the net borrowings (total bank loans net of cash and cash equivalents and restricted cash) divided by total equity. The Group's policy is to maintain a stable gearing ratio. Capital includes share capital and reserves attributable to the owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Net borrowings	<u>5,034,906</u>	<u>4,621,230</u>
Total equity	<u>10,408,323</u>	<u>9,191,211</u>
Gearing ratio	<u>48.4%</u>	<u>50.3%</u>

44. Events After the Reporting Period

On 17 March 2010, KWG Property and Rich Come Enterprises Limited (“Rich Come”), a wholly-owned subsidiary of the Company, entered into a cooperation agreement with Sun Hung Kai Development (China) Limited (“SHK China”) and Lyntondale Holdings Limited (“Lyntondale”) pursuant to which Rich Come would cooperate with SHK China for the development of three parcels of land located in Foshan City, PRC, through the subscription of 20 ordinary shares of Lyntondale by Rich Come. Upon completion of the subscription, the issued share capital of Lyntondale will be held as to 80% by SHK China and as to 20% by Rich Come.

On the same day, KWG Property and High Ascent Enterprises Limited (“High Ascent”), a wholly-owned subsidiary of the Company, entered into a cooperation agreement with SHK China and Bonserry Investments Limited (“Bonserry”) pursuant to which High Ascent would cooperate with SHK China for the development of four parcels of land located in Foshan City, PRC, through the subscription of 20 ordinary shares of Bonserry by High Ascent. Upon completion of the subscription, the issued share capital of Bonserry will be held as to 80% by SHK China and as to 20% by High Ascent.

Details of the above were contained in the Company’s announcement dated 17 March 2010.

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors of the Company on 24 March 2010.

**INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008**



To the shareholders of KWG Property Holding Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of KWG Property Holding Limited set out on pages 50 to 110, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

18th Floor

Two International Finance Centre

8 Finance Street, Central

Hong Kong

17 April 2009

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2008

	Notes	<u>2008</u> RMB'000	<u>2007</u> RMB'000
REVENUE	5	1,574,214	3,868,136
Cost of sales		<u>(746,413)</u>	<u>(1,809,200)</u>
Gross profit		<u>827,801</u>	<u>2,058,936</u>
Other income and gains	5	150,644	206,549
Selling and marketing costs		(89,514)	(65,437)
Administrative expenses		(170,908)	(148,099)
Other operating expenses, net		(1,758)	(1,086)
Fair value (losses)/gains on investment properties, net		(23,569)	2,288,520
Finance costs	7	—	(18,749)
Share of profit and loss of a jointly-controlled entity		<u>10,582</u>	<u>(36)</u>
PROFIT BEFORE TAX	6	703,278	4,320,598
Tax	10	<u>(337,108)</u>	<u>(1,637,788)</u>
PROFIT FOR THE YEAR		<u>366,170</u>	<u>2,682,810</u>
Attributable to:			
Equity holders of the parent	11	368,532	2,683,055
Minority interests		<u>(2,362)</u>	<u>(245)</u>
		<u>366,170</u>	<u>2,682,810</u>
DIVIDENDS	12		
Proposed final		<u>77,813</u>	<u>389,063</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	<u>RMB14 cents</u>	<u>RMB120 cents</u>

CONSOLIDATED BALANCE SHEET
31 DECEMBER 2008

	Notes	<u>2008</u> RMB'000	<u>2007</u> RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	443,268	227,685
Investment properties	15	3,546,400	3,650,919
Land use rights	16	549,952	875,254
Interest in a jointly-controlled entity	18	20,487	3,905
Deferred tax assets	29	168,453	111,371
Long term prepayment	19	1,098,483	933,359
Total non-current assets		<u>5,827,043</u>	<u>5,802,493</u>
CURRENT ASSETS			
Properties under development	20	11,878,560	7,745,585
Completed properties held for sale	21	1,534,404	1,189,629
Trade receivables	22	30,713	34,620
Prepayments, deposits and other receivables	23	1,069,487	735,413
Due from a jointly-controlled entity	18	50,314	29,001
Taxes recoverable	24(a)	3,316	1,800
Restricted cash	25	205,942	147,353
Cash and cash equivalents	25	1,167,009	3,288,639
Total current assets		<u>15,939,745</u>	<u>13,172,040</u>
CURRENT LIABILITIES			
Trade payables	26	2,879,007	3,437,982
Other payables and accruals	27	2,063,396	1,755,906
Interest-bearing bank loans	28	1,058,928	275,068
Taxes payable	24(b)	1,012,289	1,149,171
Total current liabilities		<u>7,013,620</u>	<u>6,618,127</u>
NET CURRENT ASSETS		<u>8,926,125</u>	<u>6,553,913</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>14,753,168</u>	<u>12,356,406</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	28	4,935,253	2,445,404
Deferred tax liabilities	29	626,704	638,656
Total non-current liabilities		<u>5,561,957</u>	<u>3,084,060</u>
Net assets		<u>9,191,211</u>	<u>9,272,346</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	30	254,093	254,093
Reserves	32(a)	8,136,797	7,890,527
Proposed final dividend	12	77,813	389,063
		8,468,703	8,533,683
Minority interests		<u>722,508</u>	<u>738,663</u>
Total equity		<u>9,191,211</u>	<u>9,272,346</u>

Kong Jian Min
Director

Kong Jian Tao
Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2008**

		Attributable to equity holders of the parent							
Notes	Issued capital	Share premium account	Reserve funds	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 30)	(note 30)	(note 32(a))						
	—	666,873	55,639	6,031	258,484	—	987,027	—	987,027
Exchange realignment	—	—	—	(45,550)	—	—	(45,550)	127	(45,423)
Total income and expense recognised directly in equity	—	—	—	(45,550)	—	—	(45,550)	127	(45,423)
Profit/(loss) for the year	—	—	—	—	2,683,055	—	2,683,055	(245)	2,682,810
Total income and expense for the year	—	—	—	(45,550)	2,683,055	—	2,637,505	(118)	2,637,387
Acquisition of subsidiaries	39	—	—	—	—	—	—	1,650	1,650
Capitalisation of share premium account	30	184,241	(184,241)	—	—	—	—	—	—
Issue of shares	30	69,852	5,015,374	—	—	—	5,085,226	—	5,085,226
Share issue expenses	30	—	(176,075)	—	—	—	(176,075)	—	(176,075)
Capital contribution from minority shareholders		—	—	—	—	—	—	737,131	737,131
Transfer to reserves		—	94,705	—	(94,705)	—	—	—	—
Proposed final 2007 dividend	12	—	—	—	(389,063)	389,063	—	—	—
At 31 December 2007 and 1 January 2008	254,093	5,321,931*	150,344*	(39,519)*	2,457,771*	389,063	8,533,683	738,663	9,272,346
Exchange realignment	—	—	—	(44,449)	—	—	(44,449)	(13,793)	(58,242)
Total income and expense recognised directly in equity	—	—	—	(44,449)	—	—	(44,449)	(13,793)	(58,242)
Profit/(loss) for the year	—	—	—	—	368,532	—	368,532	(2,362)	366,170
Total income and expense for the year	—	—	—	(44,449)	368,532	—	324,083	(16,155)	307,928
Final 2007 dividend declared		—	—	—	—	(389,063)	(389,063)	—	(389,063)
Transfer to reserves		—	39,001	—	(39,001)	—	—	—	—
Proposed final 2008 dividend	12	—	—	—	(77,813)	77,813	—	—	—
At 31 December 2008	254,093	5,321,931*	189,345*	(83,968)*	2,709,489*	77,813	8,468,703	722,508	9,191,211

* These reserve accounts comprise the consolidated reserves of approximately RMB8,136,797,000 (2007: RMB7,890,527,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2008

	Notes	<u>2008</u> RMB'000	<u>2007</u> RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		703,278	4,320,598
Adjustments for:			
Finance costs	7	—	18,749
Share of profit and loss of a jointly-controlled entity		(10,582)	36
Bank interest income	5	(23,537)	(133,327)
Gain on disposal of investment properties	5	(44,752)	(13,784)
Loss on disposal of items of property, plant and equipment	6	331	—
Depreciation	6	8,638	5,930
Amortisation of land use rights	6	618	263
Changes in fair values of investment properties	15	<u>23,569</u>	<u>(2,288,520)</u>
		657,563	1,909,945
Increase in properties under development		(3,168,278)	(5,543,926)
Increase in completed properties held for sale		(344,775)	(1,180,681)
(Increase)/decrease in trade receivables		3,907	(31,578)
Increase in prepayments, deposits and other receivables		(331,389)	(630,086)
Decrease in amount due from a director		—	77,428
Increase/(decrease) in trade payables		(857,469)	3,339,481
Increase in other payables and accruals		307,490	1,171,431
Decrease in amounts due to related companies		—	(168,778)
Increase in amount due from a jointly-controlled entity		(21,313)	(42,000)
Increase in restricted cash		<u>(58,589)</u>	<u>(97,706)</u>
Cash used in operations		(3,812,853)	(1,196,470)
Interest received		23,537	133,327
Interest paid		(377,845)	(186,874)
Corporate income tax paid		(508,430)	(185,586)
Land appreciation tax paid		<u>(36,110)</u>	<u>(30,914)</u>
Net cash outflow from operating activities		<u><u>(4,711,701)</u></u>	<u><u>(1,466,517)</u></u>

	Notes	<u>2008</u> RMB'000	<u>2007</u> RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(222,059)	(413,713)
Acquisition of land use rights		(6,882)	(779,575)
Increase in long term prepayment.		(165,124)	(933,359)
Proceeds from disposal of investment properties . . .		125,702	65,379
Acquisition of subsidiaries	39	—	(143,638)
Proceeds from disposals of property, plant and equipment.		193	—
Additional investment in a jointly-controlled entity .		(6,000)	—
Net cash outflow from investing activities		<u>(274,170)</u>	<u>(2,204,906)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares.	30	—	5,085,226
Share issue expenses	30	—	(176,075)
Decrease in restricted cash.		—	152,785
New bank loans		3,816,473	2,735,723
Repayment of bank loans		(458,512)	(2,282,016)
Capital contributions from minority shareholders . .		—	737,131
Dividend paid		(389,063)	—
Net cash inflow from financing activities.		<u>2,968,898</u>	<u>6,252,774</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(2,016,973)	2,581,351
Cash and cash equivalents at beginning of year		3,288,639	803,904
Effect of foreign exchange rate changes, net		(104,657)	(96,616)
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		<u>1,167,009</u>	<u>3,288,639</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	1,156,436	3,169,400
Non-pledged time deposits with original maturity of less than three months when acquired	25	10,573	119,239
		<u>1,167,009</u>	<u>3,288,639</u>

BALANCE SHEET
31 DECEMBER 2008

	Notes	<u>2008</u> RMB'000	<u>2007</u> RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	397	499
Interests in subsidiaries	17	<u>5,685,560</u>	<u>6,004,880</u>
Total non-current assets		<u>5,685,957</u>	<u>6,005,379</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	2,072	444
Cash and cash equivalents	25	<u>61,375</u>	<u>127,247</u>
Total current assets		<u>63,447</u>	<u>127,691</u>
CURRENT LIABILITIES			
Other payables and accruals	27	<u>1,759</u>	<u>944</u>
Total current liabilities		<u>1,759</u>	<u>944</u>
NET CURRENT ASSETS		<u>61,688</u>	<u>126,747</u>
Net assets		<u>5,747,645</u>	<u>6,132,126</u>
EQUITY			
Issued capital	30	254,093	254,093
Reserves	32(b)	5,415,739	5,488,970
Proposed final dividend	12	77,813	389,063
Total equity		<u>5,747,645</u>	<u>6,132,126</u>

Kong Jian Min
Director

Kong Jian Tao
Director

NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2008

1. Corporate Information

KWG Property Holding Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Group was involved in the following principal activities in the People's Republic of China (the "PRC"):

- property development
- property investment
- provision of property management services

In the opinion of the directors, the holding company of the Company is Plus Earn Consultants Limited, which is incorporated in the British Virgin Islands.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries had been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 & HKFRS 7 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> and HKFRS 7 <i>Financial Instruments: Disclosures — Reclassification of Financial Assets</i>
HK(IFRIC) — Int 11	<i>HKFRS 2 — Group and Treasury Share Transactions</i>
HK(IFRIC) — Int 12	<i>Service Concession Arrangements</i>
HK(IFRIC) — Int 14	<i>HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 Impact of Issued but Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> ¹
HKFRS 1 (Revised)	<i>First-time Adoption of HKFRSs</i> ²
HKFRS 2 Amendments . .	Amendments to HKFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i> ¹
HKFRS 3 (Revised)	<i>Business Combinations</i> ²
HKFRS 7 Amendments . .	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments</i> ¹
HKFRS 8	<i>Operating Segments</i> ¹
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ¹
HKAS 23 (Revised)	<i>Borrowing Costs</i> ¹
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ²
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i> ¹
HKAS 39 Amendment . .	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i> ²
HK(IFRIC) — Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) — Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement — Embedded Derivatives</i> ⁶
HK(IFRIC) — Int 13 . . .	<i>Customer Loyalty Programmes</i> ³
HK(IFRIC) — Int 15 . . .	<i>Agreements for the Construction of Real Estate</i> ¹
HK(IFRIC) — Int 16 . . .	<i>Hedges of a Net Investment in a Foreign Operation</i> ⁴
HK(IFRIC) — Int 17 . . .	<i>Distribution of Non-cash Assets to Owners</i> ²
HK(IFRIC) — Int 18 . . .	<i>Transfers of Assets from Customers</i> ⁵

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- ¹ Effective for annual periods beginning on or after 1 January 2009
 - ² Effective for annual periods beginning on or after 1 July 2009
 - ³ Effective for annual periods beginning on or after 1 July 2008
 - ⁴ Effective for annual periods beginning on or after 1 October 2008
 - ⁵ Effective for transfers of assets from customers received on or after 1 July 2009
 - ⁶ Effective for annual periods ending on or after 30 June 2009

Apart from the above, the HKICPA has issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

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- * Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's interest in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

Jointly-controlled operations

Joint venture arrangements which involve the use of the assets and other reserves of the Group and other parties, without the establishment of a separate entity, are referred to as jointly-controlled operations. Under this arrangement, assets remain under the ownership and control of each party. Revenue and expenses incurred in common are shared by the parties according to the contractual arrangement.

Assets that the Group controls and liabilities that it incurs in relation to jointly-controlled operations are recognised in the Group's consolidated balance sheets on an accrual basis and are classified according to the nature of the items. The Group's share of the income that it earns from jointly-controlled operations, together with the expenses that it incurs, is included in the Group's consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to the consolidated income statement.

Impairment of non-financial assets other than goodwill

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Buildings	3% to 5%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	10% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

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

Assets under construction represent properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, amortised land use rights and capitalised borrowing costs on related borrowed funds during the period of construction. These properties are reclassified as investment properties or appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

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

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

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

Leases

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

Land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing bank loans)

Financial liabilities including trade and other payables and interest-bearing bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within “finance costs” in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition of financial liabilities

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

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

Cash and cash equivalents

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

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interest in the joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interest in the joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Government grants

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

Revenue recognition

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

- (a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) property management fee income, when the related management services have been provided; and
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as and when the contributions fall due.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

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

Foreign currencies

The Company's functional currency is in Hong Kong dollar while the presentation currency of these financial statements is in RMB. In the opinion of the directors, as the Group's operations are mainly in the PRC, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

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

Judgements

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

Operating lease commitments — Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as assets under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held

for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to investment properties and are subject to revaluation at each balance sheet date.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2008 was approximately RMB14,023,000 (2007: Nil). Further details are contained in note 29 to the financial statements.

Estimation uncertainty

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

Corporate income taxes

The Group is subject to corporate income taxes in the PRC. As a result of the fact that certain matters relating to the corporate income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters are different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provision in the period in which the differences realise.

PRC land appreciation taxes

The Group is subject to land appreciation taxes in the PRC. The provision of land appreciation taxes is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual land appreciation tax liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its land appreciation tax calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the land appreciation tax expenses and the related provision in the period in which the differences realise.

Fair value of investment properties

Investment properties are revalued at the balance sheet date on a market value, existing use basis by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information from current prices in an active market for similar properties is considered and assumptions that are mainly based on market conditions existing at the balance sheet date are used.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Recognition and allocation of construction cost on properties under development

Development costs of properties are recorded as properties under development during construction stage and will be transferred to completed properties held for sale upon completion. Apportionment of these costs will be recognised in the income statements upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

4. Segment Information

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC. Summary details of the business segments are as follows:

- (a) the property development segment engages in the development and sale of properties;
- (b) the property investment segment invests in properties for their rental income and/or for capital appreciation; and
- (c) the property management segment engages in the provision of management services to residential and commercial properties.

There were no intersegment sales and transfers during the year (2007: Nil).

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008

	<u>Property development</u> RMB'000	<u>Property investment</u> RMB'000	<u>Property management</u> RMB'000	<u>Total</u> RMB'000
Segment revenue:				
Sales to external customers	1,471,220	74,526	28,468	1,574,214
Segment results	<u>644,342</u>	<u>92,492</u>	<u>20,878</u>	<u>757,712</u>
Interest income and unallocated income				105,892
Unallocated expenses				(170,908)
Share of profit and loss of a jointly- controlled entity	<u>10,582</u>	<u>—</u>	<u>—</u>	<u>10,582</u>
Profit before tax				703,278
Tax				<u>(337,108)</u>
Profit for the year				<u>366,170</u>
Assets and liabilities:				
Segment assets	14,609,926	4,471,471	384	19,081,781
Interest in a jointly-controlled entity	20,487	—	—	20,487
Unallocated assets				<u>2,664,520</u>
Total assets				<u>21,766,788</u>
Segment liabilities	3,329,387	353,302	—	3,682,689
Unallocated liabilities				<u>8,892,888</u>
Total liabilities				<u>12,575,577</u>
Other segment information:				
Depreciation and amortisation . .	9,464	2,437	41	11,942
Fair value losses on investment properties, net	<u>—</u>	<u>23,569</u>	<u>—</u>	<u>23,569</u>

Year ended 31 December 2007

	<u>Property development</u> RMB'000	<u>Property investment</u> RMB'000	<u>Property management</u> RMB'000	<u>Total</u> RMB'000
Segment revenue:				
Sales to external customers	3,846,838	11,639	9,659	3,868,136
Segment results	<u>1,980,306</u>	<u>2,312,417</u>	<u>1,994</u>	4,294,717
Interest income and unallocated income				192,765
Unallocated expenses				(148,099)
Finance costs				(18,749)
Share of profit and loss of a jointly- controlled entity	(36)	—	—	(36)
Profit before tax				4,320,598
Tax				<u>(1,637,788)</u>
Profit for the year				<u>2,682,810</u>
Assets and liabilities:				
Segment assets	10,340,248	4,316,615	188	14,657,051
Interest in a jointly-controlled entity	3,905	—	—	3,905
Unallocated assets				<u>4,313,577</u>
Total assets				<u>18,974,533</u>
Segment liabilities	3,616,568	605,427	—	4,221,995
Unallocated liabilities				<u>5,480,192</u>
Total liabilities				<u>9,702,187</u>
Other segment information:				
Depreciation and amortisation . .	4,916	1,245	32	6,193
Fair value gains on investment properties	<u>—</u>	<u>2,288,520</u>	<u>—</u>	<u>2,288,520</u>

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the gross proceeds, net of business tax, from the sale of properties, gross rental income received and receivable from investment properties and property management fee income during the year.

An analysis of revenue, other income and gains is as follows:

	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Revenue		
Sale of properties	1,471,220	3,846,838
Gross rental income	74,526	11,639
Property management fees	28,468	9,659
	<u>1,574,214</u>	<u>3,868,136</u>
Other income and gains		
Bank interest income	23,537	133,327
Gain on disposal of investment properties	44,752	13,784
Government grant*	—	7,900
Foreign exchange differences, net	73,675	43,179
Others	8,680	8,359
	<u>150,644</u>	<u>206,549</u>

* Government grant was received in 2007 for setting up business in an economic and technological development zone in Guangzhou, Guangdong Province, the PRC. There are no unfulfilled conditions or contingencies relating to this grant.

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

		<u>2008</u>	<u>2007</u>
	Notes	RMB'000	RMB'000
Cost of properties sold		738,895	1,804,785
Depreciation	14	8,638	5,930
Amortisation of land use rights	16	3,304	263
Less: Amount capitalised in assets under construction		<u>(2,686)</u>	<u>—</u>
		<u>618</u>	<u>263</u>
Minimum lease payments under operating leases of land and buildings		3,673	1,819
Auditors' remuneration		3,500	3,468
Employee benefit expense (excluding directors' remuneration (<i>note 8</i>)):			
Wages and salaries		89,371	63,875
Pension scheme contributions*		5,041	2,835
Less: Amount capitalised in assets under construction and properties under development		<u>(41,867)</u>	<u>(30,224)</u>
		<u>52,545</u>	<u>36,486</u>
Loss on disposal of items of property, plant and equipment		331	—
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		<u>13,799</u>	<u>2,337</u>

* At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future year (2007: Nil).

7. Finance Costs

	Group	
	2008	2007
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years . . .	302,997	186,629
Interest on bank loans wholly repayable after five years	37,011	—
Interest on amounts due to related companies	—	245
Less: Interest capitalised	(340,008)	(168,125)
	<u>—</u>	<u>18,749</u>

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Fees	2,120	1,027
Other emoluments:		
Salaries, allowances and benefits in kind	4,442	2,246
Pension scheme contributions	188	132
	<u>4,630</u>	<u>2,378</u>
	<u>6,750</u>	<u>3,405</u>

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2008	2007
	RMB'000	RMB'000
Mr. Lee Ka Sze, Carmelo	265	140
Mr. Dai Feng	265	140
Mr. Tam Chun Fai	265	140
	<u>795</u>	<u>420</u>

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) Executive directors

	<u>Fees</u>	<u>Salaries, allowances and benefits in kind</u>	<u>Pension scheme contributions</u>	<u>Total remuneration</u>
	RMB'000	RMB'000	RMB'000	RMB'000
2008				
Executive directors:				
Mr. Kong Jian Min	265	880	40	1,185
Mr. Kong Jian Tao	265	755	42	1,062
Mr. Kong Jian Nan	265	756	42	1,063
Mr. Li Jian Ming	265	905	43	1,213
Mr. Tsui Kam Tim	265	1,146	21	1,432
	<u>1,325</u>	<u>4,442</u>	<u>188</u>	<u>5,955</u>
2007				
Executive directors:				
Mr. Kong Jian Min	140	801	35	976
Mr. Kong Jian Tao	140	443	34	617
Mr. Kong Jian Nan	140	443	34	617
Mr. Li Jian Ming	140	392	25	557
Mr. Tsui Kam Tim	47	167	4	218
	<u>607</u>	<u>2,246</u>	<u>132</u>	<u>2,985</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).

9. Five Highest Paid Employees

All of the five highest paid employees during the year ended 31 December 2008 were the directors of the Company, details of whose remuneration are set out in note 8 above.

The five highest paid employees for the year ended 31 December 2007 included three directors. Details of the remuneration of the remaining two non-director, highest paid employees for the year are as follows:

	<u>Group</u>
	<u>2007</u>
	RMB'000
Salaries, allowances and benefits in kind	2,613
Pension scheme contributions	19
	<u>2,632</u>

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

	<u>Number of employees</u> <u>2007</u>
Nil to HK\$1,000,000	1
HK\$1,000,001 to HK\$1,500,000	1
	<u>2</u>

No emoluments were paid by the Group to the directors or any of the non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2007: Nil).

10. Tax

	<u>Group</u>	
	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Current — PRC		
Corporate income tax (“CIT”)	208,548	660,604
Land appreciation tax (“LAT”)	197,594	572,215
	<u>406,142</u>	<u>1,232,819</u>
Deferred (<i>note 29</i>)	(69,034)	404,969
Total tax charge for the year	<u>337,108</u>	<u>1,637,788</u>

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

	<u>Group</u>	
	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Profit before tax	<u>703,278</u>	<u>4,320,598</u>
At statutory income tax rate of 25% (2007: 33%)	175,820	1,425,797
Effect on deferred tax of decrease in rates	—	(205,208)
Income not subject to tax	(3,323)	(44,982)
Expenses not deductible for tax	5,906	22,400
Effect of withholding tax at 5% on the distributable profits of the Group’s PRC subsidiaries	17,389	—
Profit and loss attributable to a jointly-controlled entity	(2,645)	—
Land appreciation tax	197,594	572,215
Effect of land appreciation tax	(49,398)	(143,054)
Others	<u>(4,235)</u>	<u>10,620</u>
Tax charge at the Group’s effective rate of 47.9% (2007: 37.9%)	<u>337,108</u>	<u>1,637,788</u>

The share of CIT and LAT attributable to the jointly-controlled entity amounting to approximately RMB3,527,000 (2007: Nil) and RMB4,931,000 (2007: Nil), respectively, is included in “Share of profit and loss of a jointly- controlled entity” on the face of the consolidated income statement.

Hong Kong profits tax

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2007 and 2008.

PRC corporate income tax

The PRC CIT in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the years ended 31 December 2007 and 2008, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC CIT law passed during the Tenth National People's Congress on 16 March 2007, the new CIT rates for domestic and foreign enterprises were unified at 25%, which was effective from 1 January 2008. As a result, the CIT rate of all the subsidiaries of the Company incorporated in the PRC changed from 33% to 25% with effect from 1 January 2008.

PRC land appreciation tax

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

11. Profit Attributable to Equity Holders of the Parent

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of approximately RMB321,485,000 (2007: RMB480,358,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. Dividends

	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000
Proposed final — RMB3 cents (2007: RMB15 cents) per ordinary share	<u>77,813</u>	<u>389,063</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share amount for the years ended 31 December 2007 and 2008 is the same as the basic earnings per share as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>368,532</u>	<u>2,683,055</u>
	<u>Number of shares</u>	
	<u>2008</u>	<u>2007</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>2,593,750,000</u>	<u>2,231,849,315</u>

14. Property, Plant and Equipment

Group

	<u>Buildings</u>	<u>Leasehold improve- ments</u>	<u>Plant and machinery</u>	<u>Furniture, fixtures and office equipment</u>	<u>Motor vehicles</u>	<u>Assets under construction</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2008							
At 31 December 2007 and at 1 January 2008:							
Cost	80,893	1,329	3,188	8,864	23,697	126,727	244,698
Accumulated depreciation	<u>(3,188)</u>	<u>(1,329)</u>	<u>(1,734)</u>	<u>(2,321)</u>	<u>(8,441)</u>	<u>—</u>	<u>(17,013)</u>
Net carrying amount	<u>77,705</u>	<u>—</u>	<u>1,454</u>	<u>6,543</u>	<u>15,256</u>	<u>126,727</u>	<u>227,685</u>
At 1 January 2008,							
net of accumulated depreciation	77,705	—	1,454	6,543	15,256	126,727	227,685
Additions	—	267	—	11,624	9,097	203,757	224,745
Disposals	—	—	—	—	(524)	—	(524)
Depreciation provided during the year	<u>(3,191)</u>	<u>(99)</u>	<u>(552)</u>	<u>(2,404)</u>	<u>(2,392)</u>	<u>—</u>	<u>(8,638)</u>
At 31 December 2008,							
net of accumulated depreciation	<u>74,514</u>	<u>168</u>	<u>902</u>	<u>15,763</u>	<u>21,437</u>	<u>330,484</u>	<u>443,268</u>
At 31 December 2008:							
Cost	80,893	1,596	3,188	20,488	31,439	330,484	468,088
Accumulated depreciation	<u>(6,379)</u>	<u>(1,428)</u>	<u>(2,286)</u>	<u>(4,725)</u>	<u>(10,002)</u>	<u>—</u>	<u>(24,820)</u>
Net carrying amount	<u>74,514</u>	<u>168</u>	<u>902</u>	<u>15,763</u>	<u>21,437</u>	<u>330,484</u>	<u>443,268</u>

Group

	<u>Buildings</u>	<u>Leasehold improve- ments</u>	<u>Plant and machinery</u>	<u>Furniture, fixtures and office equipment</u>	<u>Motor vehicles</u>	<u>Assets under construction</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2007							
At 1 January 2007:							
Cost	10,538	1,329	3,188	4,360	19,489	529,535	568,439
Accumulated depreciation	<u>(1,695)</u>	<u>(1,079)</u>	<u>(1,124)</u>	<u>(1,032)</u>	<u>(6,160)</u>	—	<u>(11,090)</u>
Net carrying amount . . .	<u>8,843</u>	<u>250</u>	<u>2,064</u>	<u>3,328</u>	<u>13,329</u>	<u>529,535</u>	<u>557,349</u>
At 1 January 2007, net of accumulated							
depreciation	8,843	250	2,064	3,328	13,329	529,535	557,349
Additions	—	—	—	4,511	4,208	404,994	413,713
Disposals	—	—	—	(7)	—	—	(7)
Depreciation provided during the year	(1,493)	(250)	(610)	(1,296)	(2,281)	—	(5,930)
Write-back of disposals .	—	—	—	7	—	—	7
Transfers	70,355	—	—	—	—	(70,355)	—
Transfer to investment properties (<i>note 15</i>) .	—	—	—	—	—	(712,493)	(712,493)
Reclassification	—	—	—	—	—	(24,954)	(24,954)
At 31 December 2007, net of accumulated							
depreciation	<u>77,705</u>	<u>—</u>	<u>1,454</u>	<u>6,543</u>	<u>15,256</u>	<u>126,727</u>	<u>227,685</u>
At 31 December 2007:							
Cost	80,893	1,329	3,188	8,864	23,697	126,727	244,698
Accumulated depreciation	<u>(3,188)</u>	<u>(1,329)</u>	<u>(1,734)</u>	<u>(2,321)</u>	<u>(8,441)</u>	—	<u>(17,013)</u>
Net carrying amount . . .	<u>77,705</u>	<u>—</u>	<u>1,454</u>	<u>6,543</u>	<u>15,256</u>	<u>126,727</u>	<u>227,685</u>

Company

	Furniture, fixtures and office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000
31 December 2008			
At 31 December 2007 and at 1 January 2008:			
Cost	47	482	529
Accumulated depreciation	(7)	(23)	(30)
Net carrying amount	<u>40</u>	<u>459</u>	<u>499</u>
At 1 January 2008, net of accumulated depreciation	40	459	499
Additions	1	—	1
Depreciation provided during the year	(15)	(88)	(103)
At 31 December 2008, net of accumulated depreciation	<u>26</u>	<u>371</u>	<u>397</u>
At 31 December 2008:			
Cost	48	482	530
Accumulated depreciation	(22)	(111)	(133)
Net carrying amount	<u>26</u>	<u>371</u>	<u>397</u>
31 December 2007			
At 1 January 2007, net of accumulated depreciation			
Additions	47	482	529
Depreciation provided during the year	(7)	(23)	(30)
At 31 December 2007, net of accumulated depreciation	<u>40</u>	<u>459</u>	<u>499</u>
At 31 December 2007:			
Cost	47	482	529
Accumulated depreciation	(7)	(23)	(30)
Net carrying amount	<u>40</u>	<u>459</u>	<u>499</u>

At 31 December 2008, certain of the Group's buildings of approximately RMB52,001,000 (2007: RMB52,001,000) and assets under construction of approximately RMB265,906,000 (2007: Nil) were pledged to secure general banking facilities granted to the Group (note 35).

At 31 December 2007, the Group was in the progress of obtaining the property ownership certificates of the Group's buildings with a net carrying amount of approximately RMB51,861,000 from the relevant government authorities. The aforementioned property ownership certificates had been obtained during the year.

15. Investment Properties

	Group	
	2008	2007
	RMB'000	RMB'000
Carrying amount at 1 January	3,650,919	531,545
Transfer from land use rights (<i>note 16</i>)	—	169,956
Transfer from assets under construction (<i>note 14</i>)	—	712,493
Disposals	(80,950)	(51,595)
Net (loss)/profit from a fair value adjustment	(23,569)	2,288,520
Carrying amount at 31 December	<u>3,546,400</u>	<u>3,650,919</u>

The Group's investment properties are situated in the PRC and the related land are held under the lease terms of 10 to 50 years.

The Group's investment properties were revalued on 31 December 2008 by CB Richard Ellis Limited, independent professionally qualified valuers, at approximately RMB3,546,400,000 (2007: RMB3,650,919,000) on an open market, existing use basis. Certain of the Group's investment properties are leased to third parties under operating lease, further summary details of which are included in note 36(a). The gross rental income received and receivable by the Group and the direct expenses in respect of these investment properties are summarised as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Gross rental income	74,526	11,639
Direct expenses	(13,799)	(2,337)
Net rental income	<u>60,727</u>	<u>9,302</u>

At 31 December 2008, the Group's investment properties with a value of approximately RMB3,047,220,000 (2007: RMB3,153,739,000) were pledged to secure general banking facilities granted to the Group (note 35).

At 31 December 2007, the Group was in the progress of obtaining the property ownership certificates of the Group's investment properties with a net carrying amount of approximately RMB3,157,580,000 from the relevant government authorities. The aforementioned property ownership certificates have been obtained during the year.

Further particulars of the Group's major investment properties are included on page 111 of the annual report.

16. Land Use Rights

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	875,873	290,944
Additions	28,699	779,575
Amortisation recognised during the year	(3,304)	(263)
Reclassification	(348,012)	(24,427)
Transfer to investment properties (<i>note 15</i>)	—	(169,956)
At 31 December	553,256	875,873
Current portion included in prepayments, deposits and other receivables	(3,304)	(619)
Non-current portion	549,952	875,254

The Group's land use rights are located in the PRC and held under the lease terms of 10 to 50 years.

Certain of the Group's land use rights of approximately RMB79,548,000 (2007: RMB47,193,000) were pledged to banks to secure general banking facilities granted to the Group (note 35).

At the balance sheet date, the Group is in the progress of obtaining the land use right certificates of certain lands with an aggregate net carrying amount of approximately RMB266,762,000 (2007: RMB393,096,000) from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of the relevant land use rights grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration and late charges, if any, as stipulated in the relevant land use rights grant contracts.

17. Interests in Subsidiaries

	Company	
	2008	2007
	RMB'000	RMB'000
Unlisted shares, at cost	300,306	300,306
Due from subsidiaries	5,385,254	5,704,574
	5,685,560	6,004,880

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Happy Clear Consultants Limited . . .	British Virgin Islands/ Hong Kong	US\$1,000	100	—	Investment holding
Reach Luck Consultants Limited . . .	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Boom Faith International Limited . . .	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Rising Wave Enterprises Limited . . .	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Good Excel Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Prime Way Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Guangzhou Hejing Real Estate Development Limited*#	PRC	US\$99,000,000	—	100	Property development
Guangzhou Hejing Meifu Real Estate Development Limited#	PRC	US\$12,930,000	—	100	Property development
Guangzhou Hejing Yingfu Real Estate Development Limited#	PRC	RMB35,000,000	—	100	Property development
Guangzhou Xinhengchang Enterprise Development Limited*#	PRC	RMB792,000,000	—	100	Property development
Guangzhou Zhongtianying Real Estate Development Limited*# . . .	PRC	US\$198,000,000	—	100	Property development
Guangzhou Tianjian Real Estate Development Limited*#	PRC	RMB1,485,000,000	—	100	Property development
Guangzhou Fuxin Property Management Limited*#	PRC	RMB7,000,000	—	100	Property management
Guangzhou Ningjun Property Management Limited*#	PRC	RMB7,000,000	—	100	Property management
Guangzhou Junzhao Property Operation Limited*#	PRC	RMB7,000,000	—	100	Property management
Chengdu Zhongtianying Real Estate Development Limited*#	PRC	RMB128,748,970	—	65	Property development
Guangzhou Liangyu Investment Limited ("Guangzhou Liangyu")#	PRC	RMB30,000,000	—	94.5	Property development

<u>Name</u>	<u>Place of incorporation/ registration and operations</u>	<u>Nominal value of issued and paid-up capital</u>	<u>Percentage of equity attributable to the Company</u>		<u>Principal activities</u>
			<u>Direct</u>	<u>Indirect</u>	
Hainan New World Property Development (HK) Limited ("Hainan New World")*#	PRC	HK\$15,000,000	—	100	Property development
Suzhou Hejing Real Estate Development Limited#	PRC	RMB790,000,000	—	100	Property development
Guangzhou Conghua Hejing Real Estate Development Limited ("Guangzhou Conghua Hejing")*#^	PRC	US\$71,936,224	—	100	Property development
Beijing Hejing Real Estate Development Limited#^	PRC	RMB20,000,000	—	100	Property development
Chengdu Zhaojing Real Estate Development Limited**	PRC	HK\$767,000,000	—	100	Property development
Kunshan Baicheng Real Estate Development Limited**	PRC	US\$10,000,000	—	100	Property development

* These entities are registered as wholly-foreign-owned enterprises under PRC law.

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.

^ These companies were newly established during the year.

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

18. Interest in a Jointly-controlled Entity/Amount Due from a Jointly-controlled Entity

	Group	
	2008	2007
	RMB'000	RMB'000
Share of net assets	20,487	3,905
Due from a jointly-controlled entity	50,314	29,001

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from the jointly-controlled entity approximates its fair value.

Particulars of the jointly-controlled entity are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Guangzhou Weibai Real Estate Development Limited	Paid-up capital of RMB20,100,000	PRC	50	50	50	Property development

The English name of this company referred to in these financial statements represent management's best effort to translate the Chinese name of this company, as no English name has been registered.

The above investment in the jointly-controlled entity is indirectly held by the Company through a wholly-owned subsidiary.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2008	2007
	RMB'000	RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	193,154	33,655
Current liabilities	(172,667)	(29,750)
Net assets	20,487	3,905
Share of the jointly-controlled entity's results:		
Revenue	57,644	—
Other income	264	50
	57,908	50
Total expenses	(38,868)	(86)
Tax	(8,458)	—
Profit/(loss) after tax	10,582	(36)

19. Long Term Prepayment

The Group's long term prepayment represented partial payment of a parcel of land in Guangzhou, Guangdong Province, the PRC. Pursuant to a joint venture agreement signed by the Group and another two joint venture partners, a joint venture company ("JV Co") is set up to undertake a property development project on the aforementioned parcel of land. The Group and the other two joint venture partners are entitled to equity interests in the JV Co in the respective proportions of 33.33%, 33.33% and 33.34%. As at 31 December 2008, the Group's capital injection into the JV Co had not been completed and the amount prepaid by the Group was recorded as a long term prepayment on the consolidated balance sheet.

20. Properties Under Development

	Group	
	2008	2007
	RMB'000	RMB'000
Properties under development expected to be recovered:		
Within one year	9,142,235	6,484,002
After more than one year	<u>2,736,325</u>	<u>1,261,583</u>
	<u>11,878,560</u>	<u>7,745,585</u>

The Group's properties under development were located in the PRC.

Certain of the Group's properties under development of approximately RMB1,072,890,000 (2007: Nil) were pledged to secure general banking facilities granted to the Group (note 35).

Included in the Group's properties under development as at 31 December 2008 were land costs with an aggregate carrying amount of approximately RMB4,724,637,000 (2007: RMB5,771,813,000) in which the Group is in the progress of obtaining land use right certificates from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of the relevant land use rights grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration and late charges, if any, as stipulated in the relevant land use rights grant contracts.

Further particulars of the Group's major properties under development are set out on page 111 of the annual report.

21. Completed Properties Held for Sale

The Group's completed properties held for sale are located in the PRC. All completed properties held for sale are stated at cost.

At 31 December 2008, certain of the Group's completed properties held for sale of approximately RMB273,533,000 (2007: RMB327,674,000), were pledged to secure general banking facilities granted to the Group (note 35).

Further particulars of the Group's major completed properties held for sale are set out on page 111 of the annual report.

22. Trade Receivables

	Group	
	2008	2007
	RMB'000	RMB'000
Trade receivables	<u>30,713</u>	<u>34,620</u>

Trade receivables consist of receivables from sale of properties and rental under operating leases. The payment terms of the sale of properties are stipulated in the relevant sale and purchase agreements. An ageing analysis of the trade receivables as at the respective balance sheet dates is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within 3 months.	20,643	30,103
4 to 6 months.	2,010	4,127
7 to 12 months	7,280	390
Over 1 year	780	—
	<u>30,713</u>	<u>34,620</u>

An ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Neither past due nor impaired	22,653	34,230
1 to 6 months past due	8,060	390
	<u>30,713</u>	<u>34,620</u>

The Group's trade receivables relate to a large number of diversified customers. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there was no recent history of default and the balances are still considered fully recoverable.

23. Prepayments, Deposits and Other Receivables

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	60,669	79,562	2	438
Deposits and other receivables (<i>note</i>)	1,008,818	655,851	2,070	6
	<u>1,069,487</u>	<u>735,413</u>	<u>2,072</u>	<u>444</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Note: As at 31 December 2008, included in the “Other receivables” balance of the Group was an advance to a joint venture partner of approximately RMB984,500,000 (2007: RMB500,000,000). Pursuant to a joint venture agreement signed by the Group and the aforementioned joint venture partner, a joint venture is set up to undertake a property development project in Zengcheng, Guangdong Province, the PRC, and the Group will hold a 51% equity interest in the joint venture. The fund was advanced to the joint venture partner for the payment of the land for the above property development project.

24. Taxes Recoverable/Taxes Payable

(a) Taxes recoverable

	Group	
	2008	2007
	RMB'000	RMB'000
Prepaid CIT	2,513	226
Prepaid LAT	803	1,574
	<u>3,316</u>	<u>1,800</u>

(b) Taxes payable

	Group	
	2008	2007
	RMB'000	RMB'000
CIT payable	239,353	536,948
LAT payable	772,936	612,223
	<u>1,012,289</u>	<u>1,149,171</u>

25. Cash and Cash Equivalents and Restricted Cash

	Notes	Group		Company	
		2008	2007	2008	2007
		RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances . . .		1,362,378	3,316,753	52,480	8,008
Time deposits		10,573	119,239	8,895	119,239
		<u>1,372,951</u>	<u>3,435,992</u>	<u>61,375</u>	<u>127,247</u>
Less: Restricted cash	(a)	<u>(205,942)</u>	<u>(147,353)</u>	—	—
Cash and cash equivalents .		<u>1,167,009</u>	<u>3,288,639</u>	<u>61,375</u>	<u>127,247</u>
Denominated in RMB	(b)	<u>1,079,811</u>	<u>1,888,351</u>	—	—
Denominated in other currencies		<u>293,140</u>	<u>1,547,641</u>	<u>61,375</u>	<u>127,247</u>
		<u>1,372,951</u>	<u>3,435,992</u>	<u>61,375</u>	<u>127,247</u>

Notes:

- (a) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for construction of the relevant properties. As at 31 December 2008, such guarantee deposits amounted to approximately RMB205,942,000 (2007: RMB147,353,000).
- (b) The RMB is not freely convertible into other currencies, however, subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

26. Trade Payables

An ageing analysis of the trade payables as at the balance sheet date is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Due within one year or on demand	<u>2,879,007</u>	<u>3,437,982</u>

The trade payables are normally non-interest-bearing and settled on terms of three to six months.

27. Other Payables and Accruals

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits received and receipts in advance	803,682	784,013	—	—
Other payables and accruals	1,259,714	971,893	1,759	944
	<u>2,063,396</u>	<u>1,755,906</u>	<u>1,759</u>	<u>944</u>

Other payables are normally non-interest-bearing and settled on terms of three to six months.

28. Interest-bearing Bank Loans

	Group					
	2008			2007		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured	8.59	2009	179,241	5.67–7.02	2008	86,160
Bank loans — unsecured	5.67–6.80	2009	139,589	—	—	—
Current portion of long term bank loans						
— secured	5.95–8.69	2009	403,388	5.67–6.93	2008	118,680
	HIBOR + 1.15–					
— denominated in HK\$, secured	HIBOR + 3.50	2009	306,870	HIBOR + 1.15	2008	70,228
— unsecured	7.18	2009	29,840	—	—	—
			<u>1,058,928</u>			<u>275,068</u>
Non-current						
Bank loans — secured	6.57–8.90	2010–2018	2,171,020	5.67–7.72	2009–2015	760,931
Bank loans — denominated in HK\$, secured	HIBOR + 1.15–					
	HIBOR + 1.25	2010–2014	608,539	HIBOR + 1.15	2009–2014	727,473
Bank loans — unsecured	5.67–8.32	2010–2011	2,155,694	6.72–8.22	2009–2010	957,000
			<u>4,935,253</u>			<u>2,445,404</u>
			<u>5,994,181</u>			<u>2,720,472</u>

	Group	
	2008	2007
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,058,928	275,068
In the second year	2,067,765	690,555
In the third to fifth years, inclusive	2,683,941	1,563,918
Beyond five years	<u>183,547</u>	<u>190,931</u>
	<u>5,994,181</u>	<u>2,720,472</u>

Certain of the Group's bank loans are secured by the Group's assets, details of which are disclosed in note 35.

Except for the above mentioned secured bank loans denominated in HK\$, all bank loans were denominated in RMB as at the balance sheet date.

In the opinion of the directors of the Company, the carrying amounts of the Group's bank loans approximate to their fair values.

29. Deferred Tax

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

Deferred tax liabilities

Group

	2008				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Revaluation of investment properties RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2008	—	38,214	650,956	—	689,170
Deferred tax charged/(credited) to the income statement during the year (<i>note 10</i>)	<u>11,017</u>	<u>—</u>	<u>(19,661)</u>	<u>17,389</u>	<u>8,745</u>
Gross deferred tax liabilities at 31 December 2008	<u>11,017</u>	<u>38,214</u>	<u>631,295</u>	<u>17,389</u>	<u>697,915</u>

Deferred tax assets

Group

	2008				
	Depreciation in excess of related depreciation allowance	Provision of LAT	Losses available for offsetting against future taxable profits	Accruals	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	—	161,885	—	—	161,885
Deferred tax credited to the income statement during the year (note 10)	<u>215</u>	<u>49,398</u>	<u>14,023</u>	<u>14,143</u>	<u>77,779</u>
Gross deferred tax assets at 31 December 2008	<u>215</u>	<u>211,283</u>	<u>14,023</u>	<u>14,143</u>	<u>239,664</u>
Net deferred tax recognised at 31 December 2008					<u>(458,251)</u>

Deferred tax liabilities

Group

	2007		
	Fair value adjustments arising from acquisition of a subsidiary	Revaluation of investment properties	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2007	—	116,127	116,127
Deferred tax charged to the income statement during the year (note 10)	—	534,829	534,829
Acquisition of a subsidiary (note 39)	<u>38,214</u>	<u>—</u>	<u>38,214</u>
Gross deferred tax liabilities at 31 December 2007	<u>38,214</u>	<u>650,956</u>	<u>689,170</u>

Deferred tax assets

Group

	2007		
	Provision of	Losses available	Total
	LAT	for offsetting	
RMB'000	RMB'000	against future	RMB'000
		taxable profits	
At 1 January 2007	24,858	7,167	32,025
Deferred tax credited/(charged) to the income statement during the year (<i>note 10</i>).	137,027	(7,167)	129,860
Gross deferred tax assets at 31 December 2007 . .	<u>161,885</u>	<u>—</u>	<u>161,885</u>
Net deferred tax recognised at 31 December 2007			<u>(527,285)</u>

For the purpose of the balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	Group	
	2008	2007
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated balance sheet.	168,453	111,371
Net deferred tax liabilities recognised in the consolidated balance sheet.	<u>(626,704)</u>	<u>(638,656)</u>
	<u>(458,251)</u>	<u>(527,285)</u>

The Group has unutilised tax losses of approximately RMB57,355,000 (2007: RMB23,038,000) that can be carried forward for five years for offsetting against future taxable profits of the entities in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses amounting to approximately RMB1,263,000 (2007: RMB23,038,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

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

30. Share Capital

Shares

	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000
Authorised:		
8,000,000,000 (2007: 8,000,000,000) ordinary shares of HK\$0.10 each	<u>786,113</u>	<u>786,113</u>
Issued and fully paid:		
2,593,750,000 (2007: 2,593,750,000) ordinary shares of HK\$0.10 each	<u>254,093</u>	<u>254,093</u>

A summary of the transactions in the Company's issued share capital is as follows:

	<u>Number of ordinary shares</u>	<u>Nominal value of ordinary shares</u>	<u>Equivalent nominal value of ordinary shares</u>	<u>Share premium</u>	<u>Total</u>
		HK\$'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	2,000	—	—	666,873	666,873
Capitalisation issue.	1,874,998,000	187,500	184,241	(184,241)	—
Issue of shares in connection with the listing.	<u>718,750,000</u>	<u>71,875</u>	<u>69,852</u>	<u>5,015,374</u>	<u>5,085,226</u>
	2,593,750,000	259,375	254,093	5,498,006	5,752,099
Share issue expenses	—	—	—	(176,075)	(176,075)
At 31 December 2007 and 2008.	<u>2,593,750,000</u>	<u>259,375</u>	<u>254,093</u>	<u>5,321,931</u>	<u>5,576,024</u>

There were no movements in either the Company's authorised or issued share capital during the year.

31. Share Option Scheme

Pursuant to a written resolution of the shareholders of the Company on 11 June 2007, a share option scheme (the "Scheme") was conditionally approved. On 3 July 2007, the aforesaid approval of the Scheme became unconditional and effective as the Company's shares were listed on the Stock Exchange. The Scheme is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Group's directors, including independent non-executive directors, any full-time or part-time employees of the Group, suppliers, customers, advisers, consultants and agents to the Group. Upon becoming effective, the Scheme will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme must not in aggregate exceed 10% of the shares of the Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (but taking no account of any shares which were allotted or issued pursuant to the exercise of the Over-allotment Option). Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme at any time shall not exceed 30% of the shares in issue from time to time. The maximum number of shares issuable under share options to

each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the board of directors of the Company in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the year, no share options under the Scheme were granted, exercised or cancelled by the Company and there was no outstanding share option under the Scheme as at the date of approval of these financial statements.

32. Reserves

(a) Group

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

Pursuant to the relevant laws and regulations in the PRC, the Group's subsidiaries which are registered in the PRC shall appropriate certain percentage of profit for the year (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds which are restricted as to use. During the year ended 31 December 2008, the Group appropriated approximately RMB39,001,000 to such reserve funds in accordance with relevant law and regulations in the PRC (2007: RMB94,705,000).

(b) Company

		Share premium account	Contributed surplus	Exchange fluctuation reserve	Retained profits	Total
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at						
1 January 2007 . .		666,873	308,006	(12,791)	2,042	964,130
Capitalisation of share premium account	30	(184,241)	—	—	—	(184,241)
Issue of shares	30	5,015,374	—	—	—	5,015,374
Share issue expenses	30	(176,075)	—	—	—	(176,075)
Profit for the year. .		—	—	—	480,358	480,358
Exchange realignment.		—	—	(221,513)	—	(221,513)
Proposed final 2007 dividend	12	—	—	—	(389,063)	(389,063)
At 31 December 2007		5,321,931	308,006	(234,304)	93,337	5,488,970
Profit for the year. .		—	—	—	321,485	321,485
Exchange realignment.		—	—	(316,903)	—	(316,903)
Proposed final 2008 dividend	12	—	—	—	(77,813)	(77,813)
At 31 December 2008		<u>5,321,931</u>	<u>308,006</u>	<u>(551,207)</u>	<u>337,009</u>	<u>5,415,739</u>

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation of the Group in preparation for the listing of the Company, over the nominal value of the Company's shares in exchange therefor.

33. Interests in Jointly-controlled Operations

The Group has entered into three (2007: three) joint venture arrangements in the form of jointly-controlled operations with certain parties, to jointly undertake three (2007: three) property development projects located in Guangzhou, Guangdong Province, the PRC. As at 31 December 2008, the aggregate amounts of assets and liabilities recognised in respect of these jointly-controlled operations were as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Assets	1,024,521	748,483
Liabilities	<u>(57,576)</u>	<u>(8,562)</u>

34. Contingent Liabilities

- (a) At the balance sheet date, contingent liabilities of the Group not provided for in the financial statements were as follows:

	<u>Group</u>	
	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Guarantees in respect of mortgage facilities for certain purchasers of the Group's properties (<i>note</i>)	<u>1,624,855</u>	<u>1,558,092</u>

Note:

As at 31 December 2008 and 2007, the Group provided guarantees in respect of mortgage facilities granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled but not limited to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of property ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the board of directors consider that in case of default in payments, the net realisable value of the related properties will be sufficient to cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the years ended 31 December 2008 and 2007 for the guarantees.

- (b) Pursuant to certain land use rights grant contracts entered into between the Group and the relevant PRC land bureau, the land use rights of certain land were contracted to be granted to the Group upon full payment of the land premium under the respective land use rights grant contracts. According to the terms of such land use rights grant contracts, if the delay in payment of the land premium is outstanding for more than a specified period, the relevant PRC land bureau may terminate the land use rights grant contracts, repossess the relevant land and may also claim for the compensation. The Group has applied to the relevant PRC land bureau for extension of the time limit for payment of the outstanding land premium. As at the date of this annual report, the Group has not received any notice from the relevant PRC land bureau which would indicate that it intends to terminate the land use rights grant contracts and seek the compensation. Based on the legal advice of the Company's PRC legal advisers, the directors of the Company are of the opinion that the land use rights grant contracts are still effective and as at 31 December 2008, no accrual for compensation has been made as the likelihood of such liability arising has been determined to be remote.

35. Pledge of Assets

- (a) At each of the balance sheet dates, the following assets of the Group were pledged to certain banks to secure general banking facilities granted to the Group:

	Group	
	2008	2007
	RMB'000	RMB'000
Buildings	52,001	52,001
Assets under construction	265,906	—
Land use rights	79,548	47,193
Investment properties	3,047,220	3,153,739
Properties under development	1,072,890	—
Completed properties held for sale	273,533	327,674
	<u>4,791,098</u>	<u>3,580,607</u>

- (b) At 31 December 2008, the equity interests of Guangzhou Conghua Hejing and Champ Joyment Limited, which are wholly-owned subsidiaries of the Group and incorporated in the PRC and Hong Kong, respectively, are pledged to certain banks for the loans granted to the Group.

36. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within one year	92,044	36,960
In the second to fifth years, inclusive	217,556	102,649
After five years.	56,685	31,334
	<u>366,285</u>	<u>170,943</u>

(b) *As lessee*

The Group and the Company leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 3 years.

At 31 December 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Within one year	2,535	1,010	—	639
In the second to fifth years, inclusive	784	—	—	—
	<u>3,319</u>	<u>1,010</u>	<u>—</u>	<u>639</u>

37. Commitments

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008 RMB'000	2007 RMB'000
Contracted, but not provided for:		
Property, plant and equipment — Assets under construction	301,444	237,701
Properties being developed by the Group for sale.	2,146,067	865,207
Investment in a jointly-controlled entity	898,930	1,383,430
	<u>3,346,441</u>	<u>2,486,338</u>

The Company did not have any commitment at the balance sheet date.

38. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transaction with related parties:

	Group	
	2008 RMB'000	2007 RMB'000
Interest charged by related companies (<i>note</i>).	—	245

Note: The interest was charged, with reference to the market rates, at interest rates of 6.14% to 7.34% *per annum*, for the year ended 31 December 2007.

(b) Outstanding balances with related parties:

Details of the Group's balances with its jointly-controlled entity are included in note 18 to the financial statements.

(c) Compensation of key management personnel of the Group:

	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000
Short term employee benefits	12,305	6,997
Post-employment benefits	483	378
Total compensation paid to key management personnel	<u>12,788</u>	<u>7,375</u>

Further details of directors' emoluments are included in note 8 to the financial statements.

39. Acquisition of subsidiaries

On 5 February 2007, the Group acquired a 94.5% interest in Guangzhou Liangyu. Guangzhou Liangyu is engaged in property development. The purchase consideration for the acquisition was in the form of cash, with RMB28,350,000 paid at the acquisition date.

On 26 October 2007, the Group acquired a 100% interest in Hainan New World. Hainan New World is engaged in property development. The purchase consideration for the acquisition was in the form of cash, with RMB115,288,000 paid at the acquisition date and the remaining of RMB15,542,000 will be paid upon the completion of land demolition.

The fair values of the identifiable assets and liabilities of Guangzhou Liangyu and Hainan New World as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	<u>Fair value recognised on acquisition</u>	<u>Previous carrying amount</u>
	RMB'000	RMB'000
Properties under development	169,044	16,190
Prepayments, deposits and other receivables	30,000	30,000
Deferred tax liabilities	(38,214)	—
Minority interests	(1,650)	—
	<u>159,180</u>	<u>46,190</u>
		RMB'000
Satisfied by cash		143,638
Outstanding amount payable		<u>15,542</u>
		<u>159,180</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries during the year ended 31 December 2007 is as follows:

Cash consideration	RMB'000
Cash and bank balances acquired	143,638
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>—</u>
	<u>143,638</u>

Since the acquisitions, Hainan New World and Guangzhou Liangyu reduced the consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 by approximately nil and RMB37,000, respectively. There would be no material changes in the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 should the above acquisitions have been taken place on 1 January 2007.

40. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets — Loan and receivables

	Group	
	2008	2007
	RMB'000	RMB'000
Trade receivables	30,713	34,620
Financial assets included in prepayments, deposits and other receivables (<i>note 23</i>)	1,008,818	655,851
Due from a jointly-controlled entity	50,314	29,001
Restricted cash	205,942	147,353
Cash and cash equivalents	1,167,009	3,288,639
	<u>2,462,796</u>	<u>4,155,464</u>

Financial liabilities — Financial liabilities at amortised cost

	Group	
	2008	2007
	RMB'000	RMB'000
Trade payables	2,879,007	3,437,982
Financial liabilities included in other payables and accruals (<i>note 27</i>)	1,259,714	971,893
Interest-bearing bank loans	5,994,181	2,720,472
	<u>10,132,902</u>	<u>7,130,347</u>

Financial assets — Loan and receivables

	Company	
	2008	2007
	RMB'000	RMB'000
Due from subsidiaries (<i>note 17</i>)	5,385,254	5,704,574
Financial assets included in prepayments, deposits and other receivables (<i>note 23</i>)	2,070	6
Cash and cash equivalents	61,375	127,247
	<u>5,448,699</u>	<u>5,831,827</u>

Financial liabilities — Financial liabilities at amortised cost

	<u>Company</u>	
	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Financial liabilities included in other payables and accruals (<i>note 27</i>)	<u>1,759</u>	<u>944</u>

41. Financial Risk Management Objectives and Policies

The financial assets of the Group mainly include cash and cash equivalents, restricted cash, trade receivables, deposits and other receivables and an amount due from a jointly-controlled entity. The financial liabilities of the Group mainly include trade payables, other payables and accruals and bank loans.

The carrying amounts of the Group's financial instruments approximated to their fair values as at each of the balance sheet dates. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Business risk

The Group conducts its operations in the PRC, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the property development industry.

Interest rate risk

The Group's exposure to changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its cash flow interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Group		
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		RMB'000	RMB'000
2008			
RMB.	200	(95,834)	—
Hong Kong dollar	200	(17,615)	—
RMB.	(200)	95,834	—
Hong Kong dollar	(200)	17,615	—

	Group		
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		RMB'000	RMB'000
2007			
RMB.	200	(37,737)	—
Hong Kong dollar	200	(15,954)	—
RMB.	(200)	37,737	—
Hong Kong dollar	(200)	15,954	—

* Excluding retained profits

Foreign currency risk

The Group's businesses are located in the PRC and all transactions are mainly conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB except for the Hong Kong dollar bank loans and certain short term bank deposits in Hong Kong dollars and United States dollars. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Group		
	Increase/ (decrease) in HK\$ rate	Increase/ (decrease) in US\$ rate	Increase/ (decrease) in profit before tax
	%	%	RMB'000
2008			
If RMB weakens against Hong Kong dollar	(5)	N/A	(38,300)
If RMB strengthens against Hong Kong dollar	5	N/A	38,300
If RMB weakens against United States dollar	N/A	(5)	7,186
If RMB strengthens against United States dollar	N/A	5	(7,186)

	Group		
	Increase/ (decrease) in HK\$ rate	Increase/ (decrease) in US\$ rate	Increase/ (decrease) in profit before tax
	%	%	RMB'000
2007			
If RMB weakens against Hong Kong dollar .	(5)	N/A	(20,758)
If RMB strengthens against Hong Kong dollar	5	N/A	20,758
If RMB weakens against United States dollar	N/A	(5)	58,264
If RMB strengthens against United States dollar	<u>N/A</u>	<u>5</u>	<u>(58,264)</u>

Credit risk

The Group has no concentration on credit risk. The Group's cash and cash equivalents are mainly deposits with state-owned banks in the PRC and high-credit rating banks in Hong Kong.

The carrying amounts of trade and other receivables, cash and cash equivalents included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligation of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 34(a).

Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents through the sales proceeds generating from the sale of the properties and having available funding through an adequate amount of credit facilities to meet the Group's construction commitments. The board of directors expected that the sales in 2009 will be higher than that of 2008 and additional bank loans will be available to finance the Group's existing and future property development projects. The Group has a number of alternative plans to mitigate the potential impacts on the Group's working capital should there be significant adverse changes in the economic environment. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, is as follows:

Group

	2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing						
bank loans . . .	220,473	298,425	952,240	5,215,309	211,167	6,897,614
Trade payables . .	2,879,007	—	—	—	—	2,879,007
Other payables and accruals . .	1,259,714	—	—	—	—	1,259,714
	<u>4,359,194</u>	<u>298,425</u>	<u>952,240</u>	<u>5,215,309</u>	<u>211,167</u>	<u>11,036,335</u>
	2007					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing						
bank loans . . .	—	—	275,068	2,254,473	190,931	2,720,472
Trade payables . .	3,437,982	—	—	—	—	3,437,982
Other payables and accruals . .	971,893	—	—	—	—	971,893
	<u>4,409,875</u>	<u>—</u>	<u>275,068</u>	<u>2,254,473</u>	<u>190,931</u>	<u>7,130,347</u>

Company

	2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals . .	<u>1,759</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,759</u>
	2007					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals . .	<u>944</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>944</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 2007.

The Group monitors capital using a gearing ratio, which is the net borrowings (total bank loans net of cash and cash equivalents and restricted cash) divided by total equity. The Group's policy is to maintain a stable gearing ratio. Capital includes share capital and reserves attributable to the Company's equity holders. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Net borrowings/(net cash)	4,621,230	(715,520)
Total equity	9,191,211	9,272,346
Gearing ratio	<u>50.3%</u>	<u>(7.7)%*</u>

* The Group was in a net cash position as at 31 December 2007.

42. Post Balance Sheet Event

On 12 March 2009, the joint venture between Prime Way Enterprises Limited, a wholly-owned subsidiary of the Group, and the investors with respect to the property development in Chengdu has been terminated by way of transfer back to the Company the Investor Shares for US\$101,300,420.22. Details of the information were contained in the Company's announcement dated 12 March 2009.

43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 17 April 2009.

REGISTERED OFFICES

Registered Office

Place of Business in Hong Kong

KWG Property Holding Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

KWG Property Holding Limited
Suite 7506, Level 75
International Commerce Centre
1 Austin Road
West Kowloon
Hong Kong

TRUSTEE

Citicorp International Limited
39th Floor, ICBC Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

PRINCIPAL PAYING AND TRANSFER AGENT

Citibank, N.A., London Branch
21st Floor, Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB

REGISTRAR

Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

LEGAL ADVISORS TO US

*As to Cayman Islands Law and
British Virgin Islands Law*

As to U.S. and Hong Kong Law

As to PRC Law

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Sidley Austin
Level 39
Two International Finance Centre
8 Finance Street
Central, Hong Kong

Jingtian & Gongcheng
34/F, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District, Beijing
100025 China

LEGAL ADVISORS TO THE INITIAL PURCHASERS

As to U.S. Law

As to PRC Law

Davis Polk & Wardwell LLP
c/o 18th Floor, The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

Commerce & Finance Law Offices
6F NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District, Beijing
100022 China

INDEPENDENT ACCOUNTANTS

Ernst & Young
18/F, Two International Finance Centre
8 Finance Street
Central, Hong Kong

