香港交易及結算所有限公司及香港聯合交易所有限公司對本公佈的內容概不負責，對其準確性或完整性亦不發表任何聲明，並明確表示概不就因本公佈全部或任何部份內容而產生或因倚賴該等內容而引致的任何損失承擔任何責任。

本公佈僅供參考，並不構成收購、購買或認購證券的邀請或要約。

本公佈並無構成或形成任何要約或徵求於美國購買或認購證券的一部分。證券及證券擔保並無及將不會根據一九三三年美國證券法(經修訂)(「證券法」)或美國任何州或其他司法權區的證券法登記。證券及證券擔保依據證券法項下S規例於美國境外提呈發售及出售，如並無登記或獲豁免遵守證券法的登記規定，亦不得在美國境內提呈發售或出售。證券或證券擔保將不會於美國或提呈發售受限制或禁止的任何其他司法權區進行公開發售。

中國水務地產集團有限公司
CHINA WATER PROPERTY GROUP LIMITED

(於開曼群島註冊成立之有限公司)
(股份代號：2349)

公佈
建議發行優先票據

本公司建議進行以港元計價及結算之票據的國際發售。本公司將就有關建議票據發行為若干專業投資者提供有關本集團之近期公司及財務資料，其中若干資料之前尚未公開。該等資料乃於本公佈披露，及本公佈附錄包括本公司營運及財務數據之摘錄。該等資料在約於其向專業投資者披露同時在本公司網站**www.waterpropertygroup.com**可查閱。

建議票據發行之完成取決於市況及投資者的興趣。票據的定價，包括本金總額、發行價及利率，將通過由獨家牽頭經辦人兼獨家賬簿管理人國泰君安證券(香港)有限公司進行的入標定價程序釐定。在落實票據條款後，國泰君安證券(香港)有限公司與本公司將訂立購買協議，據此，國泰君安證券(香港)有限公司將為票據之初始買方。

本公司擬將建議票據發行之所得款項淨額用於現有及新物業項目(包括建設成本及土地溢價)及一般公司用途。

本公司將尋求票據於聯交所上市，並已收到聯交所有關僅通過向專業投資者以發行債券方式進行票據上市之上市資格批准。票據獲准納入聯交所並不被視為本公司或票據之價值指標。

由於截至本公佈日期並未訂立有關建議票據發行之具約束力協議，建議票據發行未必能夠完成。投資者及本公司股東於買賣本公司證券時務請審慎行事。

倘簽訂購買協議，本公司將就建議票據發行另行刊發公佈。

緒言

本公司建議進行以港元計價及結算之票據的國際發售及將於二零一三年十一月十三日或前後向專業投資者展開路演。票據擬由本公司若干附屬公司擔保並通過質押本公司若干附屬公司之股份作抵押。國泰君安證券(香港)有限公司已獲委任為獨家全球協調人、獨家牽頭經辦人及獨家賬簿管理人。

票據將會及僅會根據證券法S規例以離岸交易向美國境外提呈發售。票據概不會向香港公眾人士發售。有關票據之發售備忘錄將不會於香港公司註冊處處長登記。發售備忘錄之副本可能不會構成向香港公眾人士發售票據或就香港法例第32章公司條例而言於香港刊發、傳閱或派發招股章程方式向於香港有限數目之票據潛在申請人發佈。

建議票據發行之完成取決於市況及投資者的興趣。票據的定價，包括本金總額、發行價及利率，將通過由獨家牽頭經辦人兼獨家賬簿管理人國泰君安證券(香港)有限公司進行的入標定價程序釐定。在落實票據條款後，國泰君安證券(香港)有限公司與本公司將訂立購買協議，據此，國泰君安證券(香港)有限公司將為票據之初始買方。

本公司將就有關建議票據發行為若干專業投資者提供有關本集團之近期公司及財務資料，其中若干資料之前尚未公開。該等資料乃於本公佈披露，及本公佈附錄包括本公司營運及財務數據之摘錄。該等資料在約於其向專業投資者披露同時在本公司網站**www.waterpropertygroup.com**可查閱。

建議票據發行之理由

本公司為中國綜合住宅及商業物業開發商、擁有人及營運商。本公司主要於北京、武漢及其他一二線城市從事物業開發、物業投資及酒店以及物業管理業務。

本公司擬將建議票據發行之所得款項淨額用於現有及新物業項目(包括建設成本及土地溢價)及一般公司用途。

上市

本公司將尋求票據於聯交所上市。已收到聯交所有關僅透過向專業投資者進行債務發行之票據上市之上市資格批准。聯交所票據之獲准納入並不視為本公司或票據之價值指標。

一般事項

由於截至本公佈日期並未訂立有關建議票據發行之具約束力協議，建議票據發行未必能夠完成。投資者及本公司股東於買賣本公司證券時務請審慎行事。

倘簽訂購買協議，本公司將就建議票據發行另行刊發公佈。

本集團之更新資料

概覽

誠如二零一三年中報所披露，本集團主要從事房地產開發、物業投資、酒店業務及物業管理，策略重點為長江沿岸二三線城市的黃金地段。目前，本集團的開發項目主要集中於武漢、杭州、廣州和中國其他快速發展的城市。本集團為中國綜合住宅及商業物業開發商、擁有人及營運商。本集團之業務組合包括住宅物業、辦公樓、商業物業及酒店之發展項目。本集團一般於發展項目竣工時出售其住宅及辦公物業並保留經選擇之商業物業作租賃用途。

如二零一三年中報所述，本集團將堅持既定的策略，全力在具有戰略意義的重要的長江沿岸二三線城市發展物業項目，提供優質服務予客戶。

近期發展

最近，本集團計劃主要專注於北京及上海等一線城市及主要二線城市以及中國之戰略性省會城市。本集團正尋求及評估透過收購及政府土地競拍制度於經選擇之一線及二線城市以及戰略性省會城市之收購機會，搜尋擁有土地使用權及物業之公司以及呈現土地收購機會之其他開發商。此外，本集團已開始及將繼續採用與地方政府直接磋商之土地收購模式參與政府發起之大型項目(如文化產業領域)之開發，而本集團認為此舉將進一步確保其透過向地方政府提供增值服務而獲取優質土地之能力。

儘管存在有關本集團重點之更新情況，本集團將繼續開發優質物業及提供優質服務予客戶。同時，本集團亦將繼續開發多樣化之組合(包括住宅物業、購物商場、辦公大樓、別墅及酒店)，為本集團創造穩定之現金流入，令本集團能夠維持穩健之資產負債表及適中之資產負債狀況。本集團對市場狀況仍持審慎態度，並將持續採納均衡之方式，包括嚴格之資本管理措施。

釋義

於本公佈，除非另有所指，下列詞彙應具有以下涵義：

「二零一三年中報」	指	本公司截至二零一三年六月三十日止六個月之中報
「董事會」	指	董事會
「本公司」	指	中國水務地產集團有限公司，一間於開曼群島註冊成立之有限公司，其已發行股份於聯交所主板上市
「董事」	指	本公司之董事
「本集團」	指	本公司及其附屬公司
「港元」	指	港元，香港法定貨幣
「香港」	指	中國香港特別行政區
「發行價」	指	票據將予發行及出售之最終價格

「上市規則」	指	聯交所證券上市規則
「票據」	指	本公司將予發行之優先票據
「中國」	指	中華人民共和國，就本公佈而言，將不包括香港特別行政區、澳門特別行政區及台灣
「建議票據發行」	指	本公司進行之票據之國際發售
「購買協議」	指	由(其中包括)本公司及國泰君安證券(香港)有限公司擬將訂立有關票據之協議
「證券法」	指	一九三三年美國證券法(經修訂)
「證券及期貨條例」	指	香港法例第571章證券及期貨條例
「聯交所」	指	香港聯合交易所有限公司

承董事會命
中國水務地產集團有限公司
副主席兼行政總裁
王文霞

香港，二零一三年十一月十二日

於本公佈日期，董事會成員包括執行董事王文霞女士(副主席兼行政總裁)及任前先生；非執行董事段傳良先生(主席)及周鯤先生；以及獨立非執行董事陳博曉先生、黃志明先生及王堅先生。

董事共同及個別對本公佈所載資料之準確性承擔全部責任，並經作出一切合理查詢後確認，就彼等所深知，本公佈內所發表之意見乃經審慎周詳考慮後達致，而本公佈並無遺漏任何其他事實，致使本公佈中任何陳述產生誤導。

Extract of Operating and Financial Data of China Water Property Group Limited (as of 12 November 2013)

Sections in the Offering Memorandum to be included:

1. Risks Factors
2. Capitalisation and Indebtedness
3. Selected Consolidated Financial and Other Data
4. Management's Discussion and Analysis of Financial Condition and Results of Operations
5. Corporate Structure
6. Business
7. Description of Other Material Indebtedness

An investment in the Notes is subject to significant risks. You should carefully consider all of the information in this offering memorandum and in particular the risks and uncertainties described below before making an investment decision in relation to the Notes. The risks and uncertainties described below may not be the only ones that exist. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, prospects, financial condition or results of operations. If any of the foregoing or any of the possible events described below occur, our business, prospects, financial condition or results of operations could be materially and adversely affected. As a result, the market price of the Notes may decline. We may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment. This offering memorandum also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this offering memorandum.

Risks Relating to Our Business and Our Industry

Our property development business is heavily dependent on the performance of the property market in China.

Our property development business is subject to the conditions of the PRC property market, particularly in cities where our existing property projects are located. As at the date of this offering memorandum, all of our property projects were located in Wuhan, Hangzhou, Nanjing and Beijing. For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, we derived a substantial portion of our revenue from our development and investment properties in Wuhan. We expect that our property development business will be significantly affected by the state of the property market in these regions. Growth in demand for commercial and residential properties in the PRC is often affected by volatility in market conditions and fluctuations in property prices. The PRC property market is affected by many factors, including changes in the PRC's political, economic and legal environment. Adverse developments in economic conditions as measured by such factors as GDP growth, employment levels, job growth, consumer confidence, interest rates and population growth in the PRC, particularly in the regions where our projects are located, may reduce demand and depress property prices and rents. Any over-development, market downturn or fluctuations in property prices in the PRC in general, and in particular Hubei and Zhejiang Provinces, would have a material adverse effect on our business, prospects, financial condition and results of operations. For instance, the property price index for new residence and second-hand residence in Wenzhou, Zhejiang Province, decreased by 1.7% and 5.3%, respectively, for September 2013 compared to September 2012. Although we do not have development project in Wenzhou, we cannot assure you that such market downturn would not affect the real estate market in the cities where our projects are located. If we are unable to adequately or timely respond to changes in market conditions and customer preferences, our business, prospects, financial condition and results of operations may be materially and adversely affected. Furthermore, the PRC government may from time to time revise its fiscal and monetary policies to adjust the growth rate of PRC national economy and local economies, and such policy changes may affect the property market in the regions where we have or will have property developments. We cannot assure you that our property development or our sales and leasing activities will remain at the levels we achieved in the past.

Our operations are subject to extensive governmental regulations, and in particular, changes in governmental policies relating to the property industry in China.

Our business is subject to extensive governmental regulations. 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 designed for the implementation of 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 of foreign exchange, taxation, financing available and foreign investment, many of which are designed to discourage excessive speculation by investors and to prevent the overheating of the domestic real estate market. Such measures include raising benchmark interest rates of commercial banks, placing additional limitations on the ability of commercial banks to make loans to property developers, imposing additional taxes and levies on property sales, restricting foreign investment in the PRC property sector and restricting domestic individuals to purchase properties in some cities in China. See "Regulations." Many of the property industry policies carried out by the PRC government are unprecedented and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on our operations and our future business development. We cannot assure you that the PRC government will not adopt additional and more stringent industry policies and regulations in the future. If we fail to adapt our operations to new policies and regulations that may come into effect from time to time with respect to the property industry, or such policy changes disrupt our business prospects or cause us to incur additional costs, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Our land may be forfeited by the PRC government if we fail to comply with the terms of the land grant contracts.

Under PRC laws and regulations, if a property developer fails to develop land according to the terms of the land grant contract (including those relating to payment of fees, designated use of land, and time for commencement and completion of development of the land), the relevant government authorities may issue a warning to, or impose a penalty on, the developer, or require forfeiture of the developer's land. Under current PRC laws and regulations, if we fail to commence development within one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice on us and impose an idle land fee on the land of up to 20% of the land premium. If we fail to commence development within two years from the commencement date stipulated in the land grant contract, the land is subject to forfeiture by the PRC government unless the delay in development is caused by government actions, force majeure or necessary preparatory work. See "Regulations — Land for Property Development."

We have been subject to delays with respect to the commencement of construction or the completion of the development of Future City, Qiandao Lake Villa (Phases I, II and III), Mei Lai International Centre and Zhongshui ● Longyang Plaza. We cannot assure you that the delays will not lead to forfeiture of land or payment of idle land fees or that the PRC land bureau will not impose any penalty pursuant to the land grant contract and relevant PRC laws and regulations in the future. If our land is forfeited, or we are required to pay idle land fees, land premium or any other penalties, we will not be able to continue our property development on the forfeited land or recover the costs incurred for the initial acquisition of the forfeited land or recover development and other costs incurred up to the date of forfeiture, and our business, prospects, financial condition and results of operations may be materially and adversely affected.

We are in the process of renewing expired qualification certificates for certain property development or management subsidiaries but we may not be able to extend or renew such qualification certificates.

As a pre-condition to engaging in property development in China, a property developer must obtain a qualification certificate and have it renewed annually unless the rules and regulations allow for a longer renewal period. According to the relevant PRC regulations on qualification of property developers, a newly established property developer must first apply for a provisional qualification certificate with a one-year validity, which can be extended for a maximum of two years (subject to local practices of the place where the property developer in located). If the newly established property developer fails to commence a property development project within the one-year period when the provisional qualification certificate is in effect, it will not be allowed to extend its provisional qualification certificate. More established property developers must also apply for renewal of their qualification certificates on an annual basis. It is mandatory under government regulations that developers fulfil all statutory requirements before obtaining or renewing their qualification certificates.

As at the date of this offering memorandum, the qualification certificates of Water Property Hubei Group Co., Ltd. (水務地產湖北集團有限公司) ("**Water Property Hubei**") and Hangzhou Pu Tian Property Development Co., Ltd. (杭州普天房地產開發有限公司) ("**Hangzhou Pu Tian**") have expired. We are in the process of renewing such qualification certificates and expect to obtain the renewed certificates by the end of 2013. As the development of Future City was completed and no new project is to be developed by Water Property Hubei, our PRC legal advisers, King and Wood Mallesons, believe the expiry of its qualification certificate will not have a material adverse effect on our operations.

However, the qualification of Hangzhou Pu Tian was expired in January 2013 and it may be subject to penalties imposed by the relevant local authorities, which may adversely affect and/or delay the development of Phase II and Phase III of Qiandao Lake Villa (千島湖墅). In addition, the qualification certificates of Wuhan Kaiyue Property Development Co., Ltd. (武漢凱越房地產開發有限公司) and Wuhan Zhong Nan Automobile Parts and Accessories Co. Ltd. ("**Wuhan Zhong Nan**") (武漢市中南汽車配件配套有限責任公司) will expire on 16 January 2014.

Furthermore, according to the relevant PRC regulations on qualification of property management enterprises, a newly established property management enterprise must first apply for a provisional qualification certificate with a one-year validity and then apply for the examination of its property management qualification with the local authorities. The qualification certificate of our PRC subsidiary, Wuhan Future City Commercial Property Management Company Ltd. (武漢未來城商業物業管理有限公司) ("**Wuhan Future City Management**") for property management service expired on 6 January 2013. We are in the process of renewing such qualification certificate and expect to obtain a renewed certificate by the end of 2013. Wuhan Future City Management may be subject to penalties imposed by the relevant local authorities and, accordingly, the operations of Future City Shopping Centre may be adversely affected as a result.

We may not be able to renew these qualification certificates in a timely manner, or at all. If we do not possess valid qualification certificates, the governmental authorities may refuse to issue pre-sale and other permits necessary for our property development business and we may not be able to continue our property management business. In addition, the governmental authorities may impose a penalty on us and our subsidiaries for failure to comply with the relevant licensing requirements. If we are unable to meet the relevant requirements, and therefore unable to renew the qualification certificates or pass the annual verification, our business, prospects, financial condition and results of operations could be materially and adversely affected.

Fair value gains on our investment properties represent a substantial portion of our net profit, and 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.

We had a sizeable completed investment property portfolio with an aggregate GFA of approximately 113,008 sq.m. as at 30 June 2013, including parking spaces, but excluding the GFA of the related land in the Huadu Project. We are required to reassess the fair value of our investment properties at the end of each reporting period on which we issue financial statements. Under HKFRSs, gains or losses arising from changes in the fair value of our investment properties are included in our consolidated statements of comprehensive income in the period in which they arise.

We recognise the fair value of our investment properties on our consolidated statements of financial position, and recognise fair value gains or losses on investment properties and the relevant deferred tax on our consolidated statements of profit or loss and other comprehensive income. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, we recorded fair value gains on our investment properties in the amounts of approximately HK$478.3 million, HK$205.1 million, HK$282.8 million and HK$23.5 million, respectively.

The increase in the fair value of our investment properties for the three years ended 31 December 2012 was primarily due to the addition of new investment properties and land parcel. Fair value gains do not, however, generate cash inflow which can be contributed to payments of interest, principal or other amounts under the Notes unless such investment properties are disposed of and the capital gains are realised. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. We cannot assure you that changes in market conditions (if any) will continue to create fair value gains on our investment properties at previous levels or at any level at all, or that the fair value of our investment properties will not decrease in the future or that our investment properties will increase substantially or at all. In particular, the fair value of our investment properties could decline in the event that, among other things, the property industry experiences a downturn as a result of PRC government policies aimed at "cooling-off" the PRC property market, or any global market fluctuations and economic downturn. We cannot assure you that the fair value gains (if any) on our investment properties will increase due to any increase in our portfolio of investment properties and/or increase overall value appreciation of properties in Hubei, Jiangsu and Zhejiang Provinces or any other cities or provinces where we develop our property projects. Any decrease in the fair value of our investment properties could lead to a decrease in fair value gains or increase in fair value loss on investment properties in our statements of comprehensive income which could adversely affect our financial performance.

We may not always be able to obtain land reserves that are suitable for our property development at commercially acceptable prices.

We derive our revenue mainly from the sale and lease of properties developed by us. Our ability to generate sustainable revenue depends on our ability to continuously identify and acquire suitable sites for property development. Many cities in China have seen an increase in land costs in recent years and there is a limited supply of suitable land available for development in such cities. As a result, we may not be able to acquire suitable land at reasonable costs. We may also face strong competition from other property developers for the sites we plan to acquire and we cannot assure you that we will be able to acquire these sites at reasonable costs, or at all. Furthermore, the PRC government and the relevant local authorities have control over the supply of substantially all land and their approved usage, which in turn affects the price at which we can acquire land. Further changes in government policy with regard to land supply and development may lead to an increases in our costs of acquiring land and limit our ability to successfully acquire land at reasonable costs, which would have a material adverse impact on our business, prospects, financial condition and results of operations.

We have entered into a non-binding letter of intent with the People's Government of Gaoan County, Jiangxi Province in June 2013, pursuant to which we plan to cooperate with the People's Government of Gaoan County to build the Gaoan Dacheng • Changxi Cultural Industry Area, which is expected to have a total site area of approximately 3.3 million sq.m. This cultural area is also expected to comprise an art school, exhibition halls, residential properties, commercial area and related facilities. We cannot assure you that the letter of intent, or the projects that we negotiate under a similar approach going forward, will eventually result in our acquisition of any land use right, or our entering into of any land use right grant contract, or that the governmental authorities will grant us the land use right, or issue the relevant land use right certificates in respect of these parcels of land. If we fail to obtain or experience a material delay in obtaining the land use right, our business, prospects, financial condition and results of operations may be materially and adversely affected.

We have in the past acquired all our land through the acquisition of entities that hold land use rights. However, we cannot assure you that we will be able to continue this strategy. We may have difficulties identifying suitable acquisition targets, which would limit our growth strategy or subject us to unforeseen risks. If we were unable to locate and acquire suitable land for future development before we complete the construction work for all of our current properties under development, which is expected to be mid-to-late 2015, we would not have any new property projects for development. If we do not have any new property for sale or lease, our operating cash inflow and profitability would be materially and adversely affected. Such risks, if realised, could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may not have adequate capital resources to fund our land acquisitions and develop our projects.

Property development is capital intensive. The availability of adequate financing is crucial to our ability to acquire land and to complete our projects. We finance our property development projects through our operating cash inflow, bank loans and proceeds from our equity and debt financing. As at 30 June 2013, our total outstanding bank and other borrowings and convertible notes due 2017 (the "**2017 Notes**" or "**convertible notes**") was approximately HK$1,200.2 million. However, we cannot assure you that we will have sufficient cash flow available for land acquisitions or property developments. In addition, we cannot assure you that we will be able to secure external financing on terms acceptable to us or at all.

Our ability to obtain adequate financing for land acquisitions or property development on terms commercially acceptable to us depends on a number of factors, many of which are beyond our control. The PRC government has in recent years introduced numerous policy initiatives in the financial sector to further tighten the requirements for lending to property developers which, among other things:

- prohibit the PRC commercial banks from granting loans to property developers for the purpose of paying land acquisition consideration;

- prohibit the PRC commercial banks from granting loans to a property developer for a particular project unless the property developer has obtained the land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit for that project;

- prohibit the PRC commercial banks from accepting properties that have been vacant for more than three years as collateral for loans;

- restrict the PRC commercial banks from granting loans for the development of luxury residential properties;

- require property developers to fund a minimum amount of 20% (commodity residential property projects) and 30% (other projects) of the total estimated capital required for the project with internal funds;

- raise the minimum down-payment requirement for land purchases to 50% of the land acquisition consideration and requires the land acquisition consideration to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions;

- prohibit property developers from pre-selling uncompleted units in a project prior to achieving certain development milestones; and

- prohibit property developers from using borrowings obtained from local banks to fund property developments outside that local region.

In addition, the People's Bank of China (the "**PBOC**") regulates the lending rates and reserve requirement ratios for commercial banks in the PRC, which affects the availability and cost of financing from PRC commercial banks. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. The PBOC increased the benchmark lending rates two times in 2010 and three times in 2011, and the reserve requirement ratios six times in 2010 and six times in 2011. In 2012, the PBOC decreased both the lending rates and the reserve requirement ratios twice. As at the date of this offering memorandum, the benchmark one-year lending rate is 6.00% and the current reserve requirement ratio ranges from 16.5% to 20.0%. Despite the reductions in 2012, the reserve requirement ratio remains at a relatively high level, and we cannot assure you that the PBOC will not raise lending rates or reserve requirement ratios in the future. These and other credit tightening measures by the PRC government in recent years have affected the ability of PRC companies, including property developers, to borrow funds to finance their operation and development plans. As a result, we may not be able to obtain or refinance bank loans or funding from other sources in the future on commercially acceptable terms, or at all, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

In addition to bank loans, we utilise pre-sale proceeds and funds generated from our operations as an important source of financing for our property development. We cannot assure you that we can achieve sufficient pre-sale proceeds, or at all, to finance a particular development project. Any restriction on our ability to pre-sell or sell our properties, including any increase in the amount of upfront expenditures we must incur prior to obtaining a pre-sale permit, or any restriction on our ability to utilise pre-sale proceeds, including as a result of changes to PRC laws and regulations governing the use of pre-sale proceeds, would extend the time required to recover our capital outlay and could require us to seek alternative means to finance the various stages of our property development projects. Our ability to generate cash depends on the demand for and prices of our properties and our ability to continuously develop and sell or lease our properties. Any restriction on our ability to pre-sell or sell, any change in our ability to generate profits from our operations or our ability to collect instalments from the purchasers could have a material adverse effect on our business, prospects, financial condition and results of operations.

We are subject to certain undertakings and financial covenants under our loan agreements with banks.

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, and our Company has entered into a HIBOR loan facility agreement with The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**"). We are obligated to make scheduled payments in connection with our debt and other fixed payment obligations as they become due, and we are subject to certain undertakings and financial covenants under this and other relevant loan agreements. We obtained a waiver from HSBC on 22 August 2013 in anticipation of a potential breach of certain financial covenants in the HSBC HIBOR loan facility agreement, after which HSBC waived the relevant covenants and agreed to continue to allow us to draw down on this loan facility until the relevant maturity dates. See "Description of Other Material Indebtedness." We cannot assure you that we will be able to maintain the relevant undertaking and financial covenants at all times, nor that we will not default on our loan obligations. If we are unable to obtain the necessary waivers from, or reach other arrangements with, our lenders for any potential or actual violation or default, such event of default or cross-default could lead to, among other things, an acceleration and/or immediate repayment of the relevant or other debt financing obligations and the principal, premium (if any) and interest accrued under our other debt financing obligations and the Notes. If any of these events occur in the future, it could have a material adverse effect on our business, prospects, financial condition, results of operations, the market price of the Notes and our ability to service the Notes and other debt financing obligations. See "Terms and Conditions of the Notes — Events of Default."

In addition, if we fail to make scheduled payments or meet the undertakings and financial covenants in our debt financing obligations, we may need to renegotiate the terms and conditions of such obligations or to obtain additional equity or debt financing. We cannot assure you that our renegotiation efforts would be successful or timely or that we would be able to refinance our obligations on acceptable terms or at all. If financial institutions decline to lend additional funds to us or to refinance our existing loans when they mature or when we are required to repay the loan due to any breach of the covenants and we fail to raise financing through other means, our cash flow position, business, prospects, financial condition and results of operations may be materially and adversely affected.

Our business, prospects, financial condition and results of operations may be materially and adversely affected if interest rates increase in the future.

We rely on borrowings to finance a substantial part of our development projects. Our borrowings primarily consist of loans from commercial banks in China. Most of our bank borrowings bear floating interest rates linked to PBOC-published rates. The PBOC publishes benchmark rates for the lending with different terms, which directly affect the property mortgage rates offered by commercial banks in China. Any increase in this benchmark interest rate may increase the finance costs associated with our development projects. In addition, any increase in the HIBOR published by the Hong Kong Association of Banks ("**HKAB**") may also result in an increase in our interest costs as our loan facility with HSBC bears an interest rate linked to HIBOR. Changes in the benchmark interest rates have affected and will continue to affect our financing costs and, ultimately, our results of operations. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the interest expenses on our bank loans, overdrafts and other borrowings wholly repayable within five years amounted to HK$61.1 million, HK$36.9 million, HK$88.1 million and HK$53.6 million, respectively. We cannot assure you that the PBOC or HKAB will not raise lending rates in the near future or otherwise discourage bank lending or that our business, prospects, results of operations and financial position will not be materially and adversely affected as a result.

Our sales and pre-sales will be affected if mortgage financing becomes more costly or otherwise unavailable.

Many purchasers of our residential properties rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing. An increase in minimum down payment requirements for mortgage financing may reduce the attractiveness of mortgages as a source of financing for property purchases. Either of those measures or the suspension of mortgage financing may adversely affect the affordability of residential properties, which in turn could have a material adverse effect on our business, prospects, financial condition and results of operations.

Since 2003, the PRC government has promulgated a range of laws, regulations and government policies regarding mortgage financing as a means to regulate the PRC property market. The intent of these has generally been to reduce perceived speculation in the property market. Since the fourth quarter of 2009, the PRC government has again enacted policies intended to restrain property purchases for investment or speculation purposes and to keep property prices from rising too quickly.

For more information on the regulations adopted by the PRC government related to property financing, including dates of promulgation and authorising governmental entities, see "Regulations — Commercial Bank Loans."

We cannot assure you that the PRC government will not further increase down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Nor can we assure you that such regulatory changes would not adversely affect our business, prospects, financial condition and results of operations.

We have a short track record of property operations.

Our Company was established in 2002 under the name of Wah Yuen Limited, which primarily focused on manufacturing, distribution and retail of food products in the Hong Kong and PRC markets. Because the food business struggled under the dual pressures of the global financial crisis and fierce competition, in 2009, we began our transition to become a real estate development company by leveraging the resources of our majority shareholder, including prime land bank access and strong government relations. In September 2009, we changed our name to China Water Property Group Limited and formally commenced our property development and management operations.

Since the transition of business operations to real estate development, we have encountered significant competition, as there are many significant PRC and Hong Kong property developers in the PRC real estate industry. See "— The PRC property market is highly competitive and the intense competition in our property development, investment, management and hotel businesses may materially and adversely affect our business, prospects, financial condition and results of operations." We cannot assure you that our limited track record will not affect our development and competitive standing, nor can we assure you that we will be successful in maintaining our growth or continuing to develop our operations.

We may not be able to meet our project development schedules and complete our projects on time, or at all.

Development of property projects involves a complex process that lasts for a long period of time and contains many inherent risks that could prevent the projects from being completed as originally planned. Construction of a particular project may take several years before it can generate positive cash flows through pre-sales, sales and leases, and the timing and costs involved in completing a particular project could be materially and adversely affected by many factors, including, among others:

- delays in obtaining necessary licences, permits or approvals from government agencies or authorities;
- relocation of existing site occupants and demolition of existing structures;
- shortages of materials, equipment, contractors and skilled labour;
- labour disputes;
- construction accidents;
- natural catastrophes and adverse weather conditions;
- adverse geographical conditions; and
- changes in market conditions.

Any delay in, or failure to complete, the construction of a particular project according to its planned specifications or schedule may damage our reputation as a property developer, and lead to loss of revenues, potential penalties imposed by local authorities or that which arise from late delivery of our properties and an increase in construction costs. If we do not complete our projects on time, or at all, our business, prospects, financial condition and results of operations may be materially and adversely affected.

In addition, we are developing three projects, Mei Lai International Centre, Qiandao Lake Villa and Hohai Project, through joint venture arrangements with independent third parties. We hold 60% of the equity interest in the respective joint venture subsidiaries of Mei Lai International Centre and Qiandao Lake Villa and 70.59% of the equity interest in the joint venture subsidiary for Hohai Project. We also plan to develop our Qianmen project through a joint venture, in which we hold 70% of the equity interest. There are risks in cooperating with joint venture partners, who may, for example: (i) have economic or business interests or goals that are inconsistent with ours; (ii) take actions contrary to our instructions or requests, or contrary to our policies or objectives; (iii) be unable or unwilling to fulfil their obligations under the relevant cooperation arrangements; or (iv) have financial difficulties and expose us to potential credit risk. The occurrence of any of the foregoing or any disagreements between us and our joint venture partners may result in a delay in our project development schedules of our joint ventures or materially and adversely affect the business, prospects, financial condition and results of operations of our joint ventures, which would, in turn, result in a material adverse effect on our business, prospects, financial condition and results of operations.

The illiquidity of investment properties and the lack of alternative uses for investment properties could limit our ability to respond to material adverse changes in the performance of our properties.

As at 30 June 2013, we held an aggregate GFA of approximately 113,008 sq.m. as investment properties, including parking spaces, but excluding the GFA of the related land in the Huadu Project. Investment properties are illiquid and, as a result, our ability to sell our investment properties in response to changing economic, financial and investment conditions is limited. We cannot predict whether we will be able to sell any of our investment properties for the price or on the terms set by us, or whether any price or other terms offered by prospective purchasers would be acceptable to us. We also cannot predict the length of time needed to find customers and to complete the sale. In addition, we may be required to expend funds to maintain properties, to correct defects, or to make improvements before a property can be sold, and we cannot assure you that we would have such funds available.

In addition, investment properties may not be readily convertible to alternative uses if they become unprofitable due to competition, age, decreased demand, increased supply or other factors. The conversion of investment properties to alternative uses would generally require substantial capital expenditure and we cannot assure you that we will have such funds available. These factors and any other factors that would impede our ability to respond to material adverse changes in the performance of our investment properties may have a material adverse impact on our business, prospects, financial condition and results of operations.

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

The global economic slowdown and turmoil in the global financial markets that started in the second half of 2008 have had a negative impact on the world economy, which in turn affected the PRC real estate industry and many other industries. In 2010, a financial crisis emerged in Europe, creating concerns about the ability of certain European nations to continue to service their sovereign debt obligations. On 6 August 2011, Standard and Poor's Ratings Services ("**S&P**") downgraded the rating for long-term United States debt to "AA+" from "AAA" for the first time in 70 years. The outlook for the world economy and financial markets remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the United States, the unemployment rate remains high. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow, or both. In China, real GDP growth slowed to 7.7% in 2012 from 14.2% in 2007. In the Middle East, political unrest in various countries has resulted in economic instability and uncertainty. China's economic growth may slow due to weakened exports.

While it is difficult to predict how long these conditions will exist and the extent to which we may be affected, these developments may continue to present risks to our business operations for an extended period of time, including increase in interest expenses on our bank and other borrowings, or reduction in the amount of banking facilities currently available to us. These challenging market conditions have resulted in reduced liquidity, widening of credit spreads in credit markets, a reduction in available financing and a tightening of credit terms.

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely affected, and may continue adversely affecting, homeowners and potential property purchasers, which may lead to a decline in the general demand for our products and erosion of their sale prices. In addition, any further tightening of liquidity in the global financial markets may negatively affect our access to the capital market and thereby liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets continue, our business, prospects, financial condition and results of operations may be adversely affected.

Our business, prospects, financial condition and results of operations may be adversely affected if we fail to obtain, or there are material delays in obtaining, the requisite governmental approvals.

The property industry in the PRC is heavily regulated by the PRC government. To establish a property development subsidiary in China, we must go through various PRC governmental approval and filing procedures and obtain the requisite approvals and licences for our investment in such subsidiary and its property development and related business operations. Our property development subsidiaries must comply with a variety of legal and regulatory requirements, as well as the policies and procedures established by local authorities to implement such laws and regulations. To undertake and complete a property development, a property developer must obtain permits, licences, certificates and other approvals from the relevant administrative authorities at various stages of the property development, including land use rights certificates, planning permits, construction permits, pre-sale permits and certificates or confirmations of completion and acceptance. Each approval is dependent on the satisfaction of a set of conditions. Failure to obtain, or material delays in obtaining the requisite governmental approvals for any of our projects could give rise to potential liabilities and substantially disrupt the development and sale of our developments, which would result in a material adverse effect on our business, prospects, results of operations and financial condition.

We are currently applying, by ourselves or through the land use rights holders in respect of our leased land, for permits, licences, certificates and other approvals for the development of certain projects under development or held for development, including Zhongshui • Longyang Plaza, Mei Lai International Centre, Qiandao Lake Villa, Hohai Project and Qianmen Project. We cannot assure you that we will not encounter significant problems in satisfying the conditions to the approvals necessary for our business operations or property development, or that we will be able to adapt ourselves to new laws, regulations or policies that may come into effect from time to time and to which we are subject or the particular processes related to the granting of the approvals, or that the land use rights holders from which we obtained the right to develop and manage such projects will cooperate with us to take all necessary actions to apply for such approvals. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. If we fail to obtain, or experience material delays in obtaining, the requisite governmental approvals, licences and filings, our investment in our subsidiaries and the schedule of development, the generation of revenues from our developments and sale of our developments could be substantially disrupted, resulting in a material adverse effect on our business, prospects, financial condition and results of operations.

Our failure to meet all requirements for issuance of property ownership certificates may render us liable to compensate our customers.

Once a property project has passed the requisite completion inspections, we are required to deliver such completed properties to our property purchasers within the timeframe provided in the property sale and purchase agreements. We may become liable to our property purchasers for monetary penalties for delays in property delivery in such circumstances. This may have an adverse impact on our reputation and business operations.

Under the relevant PRC laws and regulations, we are required to submit requisite applications for governmental approvals in connection with our property developments, including land use right documents and planning and construction permits, to the relevant local authorities of land resources and housing administration within 30 days after the receipt of the certificate of completion for the relevant properties, and to apply for the general property ownership certificates in respect of these properties. We are then required, within stipulated periods after delivery of the properties, to submit the relevant property sale and purchase agreements, identification documents of the purchasers, proof of payment of deed tax, and the general property ownership certificate, for the relevant authorities' review and issuance of the individual property ownership certificates in respect of the sale of the properties to the individual purchasers. Delay by any of the administrative authorities in reviewing the relevant applications and granting approval as well as other factors may affect the timely delivery of the general as well as individual property ownership certificates. We may become liable to property purchasers for monetary penalties for any late delivery of the individual property ownership certificates, which may be caused by delays in the administrative approval process or other reasons beyond our control. While we have not experienced any delay in the issuance of property ownership certificates to date, we cannot assure you that such delays will not occur with respect to our future property projects. In the event of any significant delay with respect to one or more of our property projects, our business, prospects, financial condition, results of operations and reputation would be materially and adversely affected.

We provide guarantees for mortgage loans taken out by our customers and if a significant number of these guarantees are called upon, our business, prospects, financial condition and results of operations could be materially and adversely affected.

We pre-sell some of our properties before the construction is completed. In accordance with industry practice in China, we typically provide guarantees in respect of mortgages provided by the relevant banks to our customers of residential properties until completion of construction and the relevant property ownership certificates are submitted to these banks. If a customer defaults on his mortgage loan and the bank calls upon the guarantee, we will have to repay the full portion of the mortgage loan owed by the customer to the mortgagee bank. If we fail to do so, the mortgagee bank may auction the underlying property and recover any additional amount outstanding from us as the guarantor of the mortgage. In line with industry practice, we do not conduct any independent credit checks but only rely on the results of customer credit checks conducted by the relevant mortgagee banks.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, our outstanding guarantees of mortgage loans in connection with our pre-sold residential properties amounted to HK$392 million, nil, nil and HK$147 million, respectively. For the three years ended 31 December 2012 and the six months ended 30 June 2013, we did not experience any material defaults by our customers. However, we cannot assure you that defaults will not occur in the future or that we will not suffer any loss as a result of such defaults. In addition, if a significant number of customers default on their mortgages and our guarantees are called upon, our business, prospects, financial condition and results of operations could be materially and adversely affected to the extent that there is a material depreciation in the value of the relevant properties from the price paid by the customer or that we cannot sell such properties due to unfavourable market conditions or other reasons.

The PRC property market is highly competitive and the intense competition in our property development, investment, management and hotel businesses may materially and adversely affect our business, prospects, financial condition and results of operations.

The PRC property market has been highly competitive in recent years. Our major competitors consist of large national and regional property developers, including local property developers that focus on one or more cities in Hubei, Jiangsu and Zhejiang provinces. Some of our competitors may have longer and/or better track records, greater financial, marketing and land resources, better access to financing, large sales networks and stronger brand name. In addition, these competitors may have more property industry experience than us, given our limited track record of property operations since our transition to becoming a real estate development company in 2009. See "— We have a short track record of property operations."

Our properties currently located in Beijing, Wuhan, Hangzhou and Nanjing face competition from similar properties in the same regions. In addition, we plan to further expand into first and second tier cities. Increasing competition in these cities may lead to an increase in competition for quality sites, an increase in land acquisition costs, an increase in supply of developed properties, decreased sales prices and a slowdown in the rate at which new property developments will be reviewed and approved by the relevant governmental authorities, all of which could materially and adversely affect our profitability. Such competition may also affect our ability to attract and retain tenants and customers and may reduce the rents or prices we are able to charge. Competing properties may have occupancy rates lower than our properties, which may result in those competitors being willing to lease or sell available space at lower prices than the space in our properties. If we are unable to compete effectively, our business, prospects, financial condition and results of operations could be materially and adversely affected.

In addition, we face intense competition in our property leasing and operational management business. Competition in such businesses is based on quality of services, brand name recognition, commission rates and range of services. As compared to property development, such business does not require significant capital commitments. This low entry barrier provides easy access for new competitors to enter into this business. New and existing competitors may offer competitive rates, greater convenience or better services and take business opportunities away from us. If we fail to compete effectively, our property leasing and operational management business may suffer and our business, prospects, financial condition and results of operations may be materially and adversely affected.

Our results of operations may vary significantly from period to period.

Our results of operations tend to fluctuate from period to period. The number of properties that we can develop or complete during any particular period is limited due to substantial capital requirements for land acquisition, planning and design and construction, as well as limited land supplies and the often lengthy development period before positive cash flows can be generated. Selling prices of properties vary and are largely determined by local market conditions, and the average selling price for properties in the same series may vary from city to city, which may affect our business, prospects, financial condition and results of operations. Seasonal variations may cause further fluctuations in our interim revenue and profits.

In addition, we recognise proceeds from the sale of a property as revenue only upon the delivery of the property. Therefore, our revenue and profit during any given period reflects the quantity of properties delivered during that period and are affected by any peaks or troughs in our property delivery schedule and may not be indicative of the actual demand for our properties or sales achieved during that period. In light of the above, we believe that period-to-period comparisons of our results of operations may not be as meaningful as they would be for a business with mostly recurring revenue from period to period.

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

Construction costs are one of the predominant components of our cost of sales. Construction costs encompass all costs for the design and construction of a project, including payments to third-party contractors, costs of construction materials, foundation and substructure, fittings, facilities for utilities and related infrastructure such as roads and pipelines. Historically, material costs have been one of the principal drivers of the construction costs of our property development projects. However, as most of the material costs are often included in the construction costs paid to our contractors, it has been difficult for us to estimate such costs.

Construction costs may fluctuate as a result of the volatile price movement of construction materials such as steel and cement. We expect to reduce our exposure to short-term price fluctuations of construction materials and limit project cost overruns by trying to centralise our procurement to lower our purchase costs. We may also manage the cost of outsourced construction work through a process of tenders which, among other things, takes into account procurement of principal construction materials such as steel and cement at fixed prices. In line with industry practice, if there is a significant price fluctuation (depending on the specific terms of each contract), we may be required to re-negotiate, top up or refund, depending on the price movement, existing construction contracts. If the cost of construction materials increases beyond our expectation, our contractors may seek to pass such increase in costs of construction materials to us and increase their contractor fees. In the event there is a material increase in construction costs, our business, prospects, financial condition and results of operations may be materially and adversely affected. Additionally, should our existing contractors fail to perform under their contracts, we might be required to pay more to contractors under replacement contracts. Our profit margin is sensitive to changes in market prices for construction materials and our project margins will be adversely affected if we are not able to pass all of the increased costs onto our customers.

The construction business and the property development business are subject to claims under statutorily mandated 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 third-party contractors we hire to construct 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, or if the retention money retained by us is not sufficient to cover our payment obligations under the quality warranties, we could incur significant expenses in resolving such claims or face delays in correcting the related defects, which could in turn harm our reputation and have a material adverse effect on our business, prospects, financial condition and results of operations.

We depend heavily on the continuing services of our senior management team and other key personnel.

Our success depends on the continued services of our executive Directors, Ms. WANG Wenxia and Mr. REN Qian, as well as other members of our senior management, who have been instrumental in the development and management of our operations. We are particularly dependent on these executive Directors as well as other senior management members for their vision to lead our Company and their industry knowledge and relationships that are crucial to our business and operations. In addition, competition for talented individuals, senior management personnel and employees is intense in the PRC commercial property industry. If we were to lose the services of any important team members or partners, or fail to find a suitable replacement, our business, prospects, financial condition and results of operations may be adversely impacted.

We may not be able to control the individual or collective decisions of certain tenants and property owners of our commercial complexes and other properties.

To realise better cash flow and to free up capital to invest in additional property development projects, we have sold or leased in the past and will continue to sell or lease units of our commercial complexes and other properties. We cannot assure you that we will be able to control any individual or collective decisions of any tenants and property owners in the way they operate or lease such units or that any conflict in the usage of such units will not arise. Any material dispute between our tenants and us may have a material adverse effect on our reputation, business, prospects, financial condition, results of operations and value of the related commercial complexes and other properties.

In addition, in March/April 2013, we initiated a tenancy-mix optimisation project to further improve our rental income from the Future City Shopping Centre in response to the change of customer preference. See "Business — Property Investment Business — Future City Shopping Centre." The tenancy-mix optimisation project aims at eliminating small-sized tenants that did not perform well or were facing greater competition from e-commerce business operators, and introducing quality tenants that provide better products and services to the customers. We cannot assure you that the existing tenants will cooperate with us in a timely manner, and the occupancy rate and the profitability of the Future City Shopping Centre will improve in the near future. If we fail to implement our tenancy-mix optimisation project successfully, our business, prospects, financial condition and results of operations may be materially and adversely affected.

We may not be able to continue to attract and maintain major tenants for our commercial complexes.

Our commercial properties compete for tenants with a number of other commercial properties in the surrounding areas on the basis of a wide range of factors, including location, design, construction quality and management. We also compete for tenants on the basis of rent levels and other lease terms.

We seek to maintain the quality and attractiveness of our commercial complexes by securing long-term partnerships with domestic and foreign brands across a wide spectrum of industries. Many branded companies, such as Watson's and McDonald's, are our major tenants.

However, we cannot assure you that our existing and prospective tenants will not lease properties from our competitors. As a result, we may lose existing and prospective tenants to our competitors and have difficulty in renewing leases when they become due or in finding new tenants. An increase in the number of competing properties, particularly in close proximity to our properties, could increase competition for tenants, reduce the relative attractiveness of our properties and force us to reduce rent or incur additional costs in order to make our properties more attractive. If we are not able to consistently compete effectively for commercial tenants with other property developers or operators, our occupancy rates may decline. If we fail to continue to attract well-known brands as our tenants or maintain our existing major tenants, the attractiveness and competitiveness of our commercial complexes may be adversely affected, which, in turn, could have a material adverse effect on our business, prospects, results of operations and financial position.

Any default by our major tenants could result in a significant loss of rental income and a reduction in asset value.

We derive a substantial portion of our revenue from rent received from our major tenants. Our major tenants generally pay a significant portion of the total rents in respect of a commercial complex and, in some cases, contribute to our success of securing other tenants by attracting significant number of customers to our properties. For the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, the percentages of rental income attributable to our top five tenants were approximately 20%, 17% and 21%, respectively. Any default by our major tenants could result in a loss of rental income and a decrease in the value of our properties. Moreover, such default may prevent us from increasing rents or result in lease terminations by, or reductions in rents for, other tenants under the conditions of their leases. Any of the above effects could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may be subject to liability for environmental violations.

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

As required by PRC laws and regulations, we have engaged independent environmental consultants to conduct environmental impact assessments for all of our development projects and the environmental investigations conducted to-date have not revealed environmental violations that would be expected to have a material adverse impact on our business, prospects, financial condition and results of operations. It is possible that these investigations did not reveal all potential environmental violations or their full magnitude, and that there are material environmental liabilities of which we are unaware. We cannot assure you that our procedures will be effective in preventing non-compliance in the environmental area. If any portion of our development projects is found to be non-compliant with certain environmental laws or regulations, we may be subject to suspension of operations or a portion of our operations as well as fines and other penalties, which may materially and adversely affect our business, prospects, financial condition and results of operations.

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

We may from time to time be involved in disputes with various parties that arise during the ordinary course of business. These disputes may involve matters related to development, sale, leasing and management of our properties, and could include adverse parties such as contractors, suppliers, construction workers, purchasers and tenants. These disputes may lead to protests or legal or other proceedings and may result in damage to our reputation, substantial costs to our operations, and diversion of our management's attention. In addition, we may disagree with regulatory bodies in certain respects in the course of our operations, which may subject us to administrative proceedings and unfavourable decrees that result in liabilities and cause delays to our properly developments. We cannot assure you that we will not be involved in any major legal proceedings in the future.

We have limited insurance to cover all potential losses and claims.

We do not carry insurance against all potential losses or damages with respect to our properties before their delivery to customers. In addition, we do not maintain insurance coverage against liability arising from personal injuries or other tortious acts related to construction of our projects as such liabilities should be borne by the construction companies. However, we cannot assure you that we would not be sued or held liable for damages due to any such personal injuries and other tortious acts. Moreover, our business may be adversely affected due to the occurrence of natural disasters and other unanticipated catastrophic events, with respect to which we do not carry any insurance. Also, there are certain losses for which insurance is not available on commercially practicable terms, such as losses suffered due to earthquake, nuclear contamination, typhoon, flooding, war and civil disorder. If we suffer from any losses, damages or liabilities in the course of our operations and property development, we may not have sufficient financial resources to cover fully such losses, damages or liabilities or to replace any property development that has been destroyed, and may lose all or a portion of our invested capital in the affected properties and anticipated future income from such properties. Any such material uninsured loss could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may be adversely affected by the performance of third-party contractors and service providers.

We engage third party contractors to carry out various work including construction, equipment installation, internal decoration, landscaping, electro-mechanical engineering, pipeline engineering and lift installation. We select third party contractors mainly through a tender process. We cannot guarantee that any such third party contractor will provide satisfactory services and at the required quality level. In addition, we may not be able to engage sufficient quality third party contractors in the cities which we plan to expand into. Moreover, completion of our property developments may be delayed and we may incur additional costs due to a contractor's financial or operational difficulties. The contractors may undertake projects from other developers, engage in risky undertakings or otherwise encounter financial or other difficulties, which may cause delay in the completion of our property projects or increase our project development costs. The services rendered by any of these independent contractors may not be constantly satisfactory or match our requirements for quality. Any of these factors could have a negative impact on our reputation, business, prospects, financial condition and results of operations.

We may also engage third party property management service providers to provide services such as security, property maintenance, cleaning and other ancillary services to our tenants. We cannot guarantee that any such third party service provider will provide satisfactory services and at the required quality level. In addition, we may not be able to engage sufficient quality third party service providers for the projects we are developing. Any of these factors could have a negative impact on our reputation, business, prospects, financial condition and results of operations.

We face contractual and legal risks relating to the pre-sale of properties.

We face contractual risks relating to the pre-sales of properties. For example, if we fail to meet the completion deadlines stated in pre-sale contracts, purchasers of pre-sold units have the contractual right to claim damages. If we still fail to deliver the properties to the purchasers within the grace period stipulated in the contract, the purchasers have the right of termination. If the actual GFA of a completed property delivered to purchasers deviates by more than 3% from the GFA originally stated in the pre-sale contracts, purchasers have the right of termination or the right to claim damages. We cannot assure you that we will not experience significant delays in the completion and delivery of our projects, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

We depend on cash flows from the pre-sale of properties as an important source of funding for our property development. Under current PRC laws and regulations, property developers must fulfil certain conditions before they can commence pre-sale of the relevant properties and may only use pre-sale proceeds to finance their developments. On 5 August 2005, a real estate finance research group under

PBOC recommended in the "2004 Real Estate Financing Report" that the practice of pre-selling uncompleted properties be discontinued, on the grounds that it creates significant market risks and generates transactional irregularities. At the "two meetings" (the plenary session of the National People's Congress and that of the Chinese People's Political Consultative Conference) held in March 2006, a total of 33 delegates to the National People Congress put forward a motion to abolish the system for sale of forward delivery housing. On 24 July 2007, an economy research group under the National Development and Reform Commission of the PRC ("**NDRC**") proposed to change the existing system for sale of forward delivery housing into one for sale of completed housing. These recommendations have not been adopted by any PRC governmental authority and have no mandatory effect.

On 13 April 2010, the Ministry of Housing and Urban-Rural Development of the PRC (the "**MOHURD**") issued the Notice on Further Strengthening the Supervision of Real Estate Market and Improving the Pre-Sale System of Commodity Housing (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). The notice requires local governments to enhance the administration of pre-sale of commodity housing and suggests local governments enact regulations on sale of completed commodity properties in light of local conditions to encourage property developers to sell completed commodity properties. Few local governments have commenced the pilot scheme for sale of completed commodity properties. We cannot assure you that PRC government authorities 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 restrictions on our ability to pre-sell our properties, including any increase in the amount of up-front expenditure we must incur prior to obtaining a pre-sale permit, would extend the time period required for recovery of our capital outlay and would result in our need to seek alternative means to finance the various stages of our property developments. This, in turn, could have a material adverse effect on our cash flow, business, prospects, financial condition and results of operations.

Our hotel business involves uncertainties.

We manage a business hotel, Wuhan Future City Hotel, in Wuhan through our wholly-owned subsidiary, Wuhan Future City Hotel Management Company Ltd. (武漢未來城大酒店管理有限公司) ("**Future City Hotel Management**"). Through our subsidiary, Chunan Yuehuzhuang Hotel Co., Ltd. (淳安悅湖莊酒店有限公司) ("**Chunan Yuehuzhuang**"), we also operate the Yuehuzhuang Hotel, consisting of three villas, a clubhouse and the yacht berths of our Qiandao Lake Villa project. We consider our hotel business a value enhancer to our brand recognition in the property market and an integral component of our overall residential project marketing strategy.

We have engaged experienced professional teams to manage Wuhan Future City Hotel and Yuehuzhuang Hotel. In addition, we established a wholly-owned subsidiary, Hong Kong Walter Hotel Management Group Limited, in May 2013, aiming at consolidating our resources in the management and operation of our hotel businesses in the PRC in the future. Although the management staff of our hotel at various levels have the relevant management experience, we could face considerable reputational and financial risks if a hotel is mismanaged. If we are unable to successfully manage our hotel business or if our hotel management teams do not perform well, our hotel business segment may be materially and adversely affected, which may result in a material adverse effect on our overall marketing strategy, brand, business, prospects, financial condition and results of operations.

The interests of our Parent may not align with those of our other shareholders and creditors, including the holders of the Notes.

As at 30 June 2013, our Parent held approximately 44.7% of our ordinary shares. See "Substantial Shareholders." Our Parent may be able to effectively control certain matters requiring approval by our shareholders, depending on participation at our shareholder meetings. Circumstances may arise in which the interests of our Parent may not align with the interests of the holders of the Notes. In addition, our Parent holds various property development and investment projects mainly located in Jiangxi, Hubei and Hunan Provinces in China which, we believe, are ancillary to its water supply and sewage businesses. If our Parent decides to more actively engage in the real estate market, in particular, in areas where we operate or plan to enter, such overlap of business operations with our Parent may subject us to competition. In addition, we have received support from our Parent in terms of corporate governance and financial resources. Any conflict of interest between us and our Parent may have a material adverse effect on our business, prospects, financial condition and results of operations.

We had inter-company loans among the PRC subsidiaries, which are prohibited under PRC law.

As at 30 June 2013, we had inter-company loans among PRC companies within our Group with an outstanding amount of approximately HK$182.0 million. Pursuant to the General Provisions of Loans (貸款通則) issued by the PBOC in June 1996, inter-company loans which are not made in the form of entrusted loans through commercial banks are prohibited. Under the General Provisions of Loans and relevant judicial interpretation released by the Supreme People's Court of the PRC, any interest received by the lender may be forfeited by the relevant government authorities and the lender may be subject to a fine of no more than five times such interest, which may have a material adverse effect on our business, prospects, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Inter-company Loans."

Risks Relating to the PRC

Our business, prospects, financial condition and results of operations are heavily impacted by the political and economic situation in the PRC.

Since 1978, China's GDP has grown at a rapid rate. In 2012, China's real GDP grew at a rate of 7.8%. We cannot assure you that such growth will continue in the future. However, the PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, control of foreign exchange, allocation of resources and balance of payment position. For the past three decades, the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy. Although we believe these reforms will have a positive effect on the PRC's overall long-term development, we cannot predict whether changes in the economic, political and social conditions of the PRC will materially and adversely affect our current or future business, financial condition, results of operations or prospects. Moreover, even if new policies may benefit us in the long-term, we cannot assure you that we will be able to successfully adjust to such policies. If there is a further slowdown in the economic growth of the PRC, or if the PRC economy experiences a recession, demand for our products may also decrease and our business, prospectus, financial condition, results of operations and operations may be materially and adversely affected.

In addition, demand for our products may be affected by a variety of factors, many of which may be beyond our control, including:

- political stability or changes in social conditions within the PRC;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- the imposition of additional restrictions on currency conversion and remittances abroad.

Any significant changes in relation to any of these factors may materially and adversely affect our business, prospects, financial condition and results of operations.

We may be treated as a resident enterprise for PRC tax purposes under the EIT Law, which could result in unfavourable tax consequences to us and our non-PRC shareholders.

We are incorporated under the laws of the Cayman Islands, but substantially all of our operations are in China. Under the PRC Enterprise Income Tax Law and implementation regulations thereunder issued by the State Council (the "**EIT Law**"), an enterprise incorporated in a foreign country or region may be classified as either a "non-resident enterprise" or a "resident enterprise." If an enterprise incorporated in a foreign country or region has its "de facto management bodies" located within China, such enterprise will be considered a PRC tax resident enterprise and will normally be subject to the enterprise income tax of 25% on its worldwide income. The relevant implementation rules define "de facto management bodies" as those which exercise substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties and other aspects of an enterprise. In April 2009, the State Tax Bureau issued a Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies ("**Circular 82**"), which sets forth certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in mainland China. However, Circular 82 only applies to offshore enterprises controlled by PRC enterprises and not those controlled by PRC individuals. As the date of this offering memorandum, many of our senior management are residing in China and we expect them to continue to be located in China. Due to the lack of clear guidance on the criteria pursuant to which the PRC tax authorities will determine our tax residency under the EIT Law, it remains unclear whether the PRC tax authorities will treat us as a PRC resident enterprise for tax purposes. As a result, if we are deemed to be a PRC tax resident enterprise, we will be subject to an enterprise income tax rate of 25% on our worldwide income.

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

Our income from the sale of land use right, buildings or related facilities on such land is subject to Land Appreciation Tax ("**LAT**"), which is payable on the appreciation in value representing the balance of the proceeds received on such sales, after deducting various prescribed items, including payments made for acquisition of land use right, the direct costs and expenses of the development of the land and construction of the buildings and structures, finance costs up to a maximum of 10% of the total land acquisition costs and construction costs, the appraised price of any existing buildings and structures on the land and taxes related to the assignment of the property. Apart from the aforementioned deductions, property developers enjoy an additional deduction, which is equal to 20% of the payment made for acquisition of land use right and the costs of land development and construction of new buildings or related facilities. An exemption from payment of LAT may be available if the taxpayer constructs ordinary standard residential apartments and the appreciation amount does not exceed 20% of the sum of deductions allowed under PRC law. On 28 December 2006, the State Administration of Taxation ("**SAT**") issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development (《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》). This notice came into effect on 1 February 2007 and provides further clarity on the application of LAT with respect to property development projects. First, the notice specified that taxpayers will be required to settle LAT for each property project developed, or if the project is developed in stages, for each stage of the project. Second, LAT should be imposed on taxpayers under the following conditions: (i) when a property development is completed and completely sold; (ii) when an unfinished property project that is subject to final accounts is wholly transferred to a third party; or (iii) when the taxpayer's land use right is directly transferred. Finally, LAT may be imposed on taxpayers under the following additional conditions: (i) where a property development has been completed and approved, if the area transferred is greater than 85% of the total saleable area of the development, or if the area transferred is less than 85%, and the retained area is leased or used by the developer; (ii) where a property development has not been sold out on the expiration of three years from the date the advanced sale or pre-sale licence was obtained; (iii) where a taxpayer has applied for cancellation of its tax registration but has not yet settled LAT; or (iv) where there are other circumstances as prescribed by the provincial tax authorities.

We have been prepaying LAT with reference to our pre-sale proceeds according to the relevant regulations of the local PRC government in jurisdictions where we have operations. Such LAT prepayments are recorded as a part of "prepaid taxes" on our consolidated statements of financial position. We also made LAT provision of HK$67.4 million, HK$11.4 million, HK$10.4 million and HK$14.7 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. However, the actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects and the PRC tax authorities may not agree with us on the basis on which we calculate our LAT obligations. We cannot assure you that our LAT provision will be sufficient to cover our past LAT liabilities. We also cannot assure you that the relevant tax authorities will agree with us on the basis on which we have calculated our LAT liabilities. In the event that we are required to settle any or all unpaid LAT, our cash flow, business, prospects, financial condition and results of operations during the related period may be materially and adversely affected.

The PRC government has implemented restrictions on the payment terms for land use rights.

On 28 September 2007, the Ministry of Land and Resources of the PRC (the "**MLR**") 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 provide 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 1 November 2007. As a result, property developers are no longer 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, as had previously been the practice in many Chinese cities.

On 18 November 2009, the Ministry of Finance (the "**MOF**"), the MLR, PBOC, the PRC Ministry of Supervision and the PRC National Audit Office issued 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》), which raised the minimum down payment to 50% of the total land premium and required the land premium to be fully paid within one year of signing a land grant contract, subject to limited exceptions.

On 8 March 2010, the MLR issued 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知》), under which the minimum price for a given land transfer is required to be at least 70% of the benchmark price for land in the surrounding locality and the bidding deposit for such land transfer is required to be at least 20% of the applicable minimum transfer price. Property developers are also required to pay 50% of the land premium (taking into account any deposits previously paid) as a down payment within one month of signing a land grant contract and to pay the balance within one year of the contract date. For more information on regulation, see "Regulations — Land for Property Development." According to the opinions, the bid evaluation will take into consideration, apart from the base price for land grant, factors such as applicable laws, the proposed development and utilisation of the land, land price, time of payment, development and construction duration, construction methods, the usage of land and previous dealings with the bidders. The implementation of these regulations may increase land transfer prices and require property developers to maintain a higher level of working capital. We cannot assure you that we will be able to acquire land suitable for development at a reasonable cost or that our cash flow position, financial condition or business plans will not be materially and adversely affected by the implementation of these regulations.

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

The PRC Labour Contract Law (《中華人民共和國勞動合同法》), which became effective on 1 January 2008, amended on 28 December 2012 and effective as at 1 July 2013, imposes greater liabilities on employers and significantly affects the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the PRC Labour Contract Law could adversely affect our ability to effect such changes in the most cost effective or timely manner to our business, hence may adversely affect our financial condition and results of operations. In addition, the PRC government has continued to introduce various new labour-related regulations after the promulgation of the PRC Labour Contract Law. Among other things, the Paid Annual Leave Provisions (《職工帶薪年休假條例》), which became effective on 1 January 2008, require that paid annual leaves ranging from five to fifteen days be available to nearly all employees and further require that employers compensate an employee for any annual leave days the employee is unable to take in the amount of three times of such employee's daily salary, subject to certain exceptions.

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

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

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

We face uncertainty with respect to indirect transfers of equity interests in PRC subsidiaries through their non-PRC holding companies.

On 10 December 2009, SAT promulgated the Circular of the SAT on Strengthening the Administration of Enterprise Income Tax on Incomes from Equity Transfers of Non-Resident Enterprises (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) ("**Circular 698**") to regulate the administration of enterprise income tax on equity transfer from non-resident enterprise, with retroactive effect from 1 January 2008. Under Circular 698, if a foreign investor transfers its indirect equity interest in a PRC resident enterprise by means of disposal of its equity interests in an overseas holding company (the "**Indirect Transfer**") and the overseas holding company is located in a tax jurisdiction which levies tax at an effective tax rate of less than 12.5% or does not levy tax at all, the foreign investor shall report the Indirect Transfer to the competent tax authorities and provide required materials within 30 days after signing of the equity transfer agreement. The competent taxation authorities may ignore the existence of the overseas holding company, if the foreign investor conducts Indirect Transfer without reasonable commercial purpose and establishes the overseas holding company for tax avoidance purposes. As a result, gains derived from the Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10% and the foreign investor may be subject to penalty for any late tax payment.

We cannot assure you that the acquisitions of China Water Property (Hong Kong) Group Limited and HK Mei Lai International (Canada) Limited, or others in the future will not be regarded as Indirect Transfers. In the event that we are required to settle any relevant withholding tax under Circular 698, our cash flow, financial condition and results of operations during the related period may be materially and adversely affected.

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

Facts and statistics in this offering memorandum relating to China's economy and the real estate, property investment, property management and hotel management industries 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 Purchaser or our or their respective advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to 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.

You may experience difficulties in effecting service of process, enforcing foreign judgments or bringing original actions in China against us or our Directors or officers.

We are a company incorporated under the laws of the Cayman Islands, but substantially all of our operations and assets are located in China. As a result, it may be difficult or impossible for you to effect service of process upon us. Moreover, China does not have treaties with most other jurisdictions, including Hong Kong, Japan, the United Kingdom, the United States, that provide for the reciprocal recognition and enforcement of judicial rulings and awards. As a result, recognition and enforcement in China of the judgment of a non-PRC court, such as Hong Kong, in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Furthermore, an original action may be brought in China against us or our Directors or officers only if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for institution of a cause of action pursuant to the PRC Civil Procedure Law (《中華人民共和國民事訴訟法》). As a result of the conditions set forth in the PRC Civil Procedure Law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, there remains uncertainty on whether an investor like you will be able to bring an original action in China in this fashion.

The national and regional economies in China and our prospects may be materially and adversely affected by a recurrence of SARS or an outbreak of other epidemics, such as avian flu or human swine flu.

Some regions in China, including the cities where we operate, are susceptible to epidemics such as Severe Acute Respiratory Syndrome or SARS. 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, also known as Influenza A (H1N1), 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 materially and adversely affect our business, prospects, financial condition, results of operations and prospects.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency to jurisdictions outside China. We receive substantially all of our revenue in Renminbi. Under our current structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of SAFE, by complying with certain procedural requirements. However, approval from the appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted to a jurisdiction outside China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access to foreign currencies for current account transactions in the future. If the PRC foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, our PRC subsidiaries may not be able to pay dividends in foreign currencies to us and we may not be able to service our debt obligations denominated or settled in foreign currencies, such as the 2017 Notes.

The PRC legal system has inherent uncertainties that could affect our business, prospects, financial condition and results of operations as well as the interest of investors in the Notes.

As majority of our business is conducted, and substantially all of our assets are located, in the PRC, our operations are generally affected by and subject to the PRC legal system and PRC laws and regulations.

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. In particular, legislation over the past 30 years has significantly enhanced the protections afforded to various forms of foreign investment in China. The legal system in China is continuing to evolve. Even where adequate laws exist in China, the enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited as reference but have limited weight as precedents.

Our primary operating subsidiaries were incorporated in China as “wholly foreign-owned enterprises.” Although we or our wholly owned subsidiaries are the sole shareholders of, and therefore have full control over, these PRC entities, the exercise of our shareholder rights are subject to their respective articles of association and PRC laws applicable to foreign-invested enterprises in China, which may be different from the laws of other developed jurisdictions.

China has not developed a fully integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. The relative inexperience of China’s judiciary in many cases also creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Furthermore, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation, implementation and enforcement of these laws and regulations involve uncertainties due to the lack of established practice available for reference. We cannot predict the effect of future legal development in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the inconsistencies between local rules and regulations and national law. As a result, there is substantial uncertainty as to the legal protection available to us and investors in the Notes. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation has occurred. This may also limit the remedies available to you as an investor and to us in the event of any claims or disputes with third parties.

Any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

It may be difficult to enforce any judgments obtained from non-PRC courts against us in the PRC.

Substantially all of our assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other western countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth our consolidated short-term and long-term borrowings and capitalisation as at 31 December 2012 on an actual basis and on an adjusted basis to give effect to the issuance of the Notes and receipt of the net proceeds from this offering after deducting the underwriting discounts and other estimated expenses of this offering payable by us but before the application of any of such net proceeds. The following table should be read in conjunction with our audited consolidated financial statements and related notes for the year ended 31 December 2012 included in this offering memorandum.

	As at 31 December 2012	
	Actual	**As Adjusted**
	(HK$'000)	
Bank balances and cash[(1)]	124,986	124,986
Current borrowings		
Bank and other borrowings — due within one year	364,354	364,354
Non-current borrowings[(2)]		
Bank and other borrowings — due after one year	466,049	466,049
Convertible notes	66,932	66,932
Notes to be issued in this offering	—	
Total non-current borrowings[(2)]	532,981	
Total equity[(3)]	1,599,029	1,599,029
Total capitalisation[(4)]	2,132,010	

Notes:

(1) Bank balances and cash comprise bank balances and cash held by our Group, and short-term deposits placed at banks that borne interest at prevailing market interest rates.

(2) Non-current borrowings exclude the current portion of total borrowings.

(3) Total equity equals equity attributable to owners of our Company.

(4) Total capitalisation equals total non-current borrowings plus total equity.

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalisation and indebtedness since 31 December 2012.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present our selected consolidated financial data as at and for each of the years ended 31 December 2010, 2011 and 2012 (except for EBITDA data), which have been derived from our audited consolidated financial statements as at such dates and for such years included elsewhere in this offering memorandum. The selected consolidated financial data as at and for the six months ended 30 June 2012 and 2013 (except for EBITDA data) have been derived from our unaudited condensed consolidated financial statements as at such dates and for such periods included elsewhere in this offering memorandum.

Our financial statements have been prepared and presented in accordance with HKFRSs. The selected financial data below should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Selected Consolidated Statement of Profit or Loss and Other Financial Data

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
			(HK$'000)		
		(Restated)		**(Unaudited)**	
Continuing operations					
Turnover	990,841	136,901	271,374	48,825	156,190
Cost of sales	(515,203)	(65,143)	(180,517)	(25,839)	(119,468)
Gross profit	**475,638**	**71,758**	**90,857**	**22,986**	**36,722**
Fair value gain in respect of investment properties revaluation/transferred from inventory of properties	478,343	205,125	282,779	77,778	23,497
Other operating income	3,388	5,595	1,699	506	741
Selling and distribution expenses	(74,820)	(7,122)	(17,772)	(4,610)	(2,351)
Administrative expenses	(79,780)	(122,588)	(120,001)	(37,358)	(70,791)
Finance costs	(22,890)	(22,873)	(39,689)	(18,102)	(11,446)
Profit (loss) before tax	**779,879**	**129,895**	**197,873**	**41,200**	**(23,628)**
Income tax expense	(265,776)	(53,362)	(87,785)	(22,161)	(24,024)
Profit (loss) for the year/period from continuing operations	**514,103**	**76,533**	**110,088**	**19,039**	**(47,652)**
Discontinued operations					
Loss for the year/period from discontinued operations	(7,299)	(48,130)	(43,428)	(8,961)	—
Profit (loss) for the year/period	**506,804**	**28,403**	**66,660**	**10,078**	**(47,652)**
Profit (loss) for the year/period attributable to:					
Owners of the Company					
Profit for the year/period from continuing operations	510,631	81,055	91,906	20,746	(66,164)
Loss for the year/period from discontinued operations	(1,097)	(47,682)	(42,816)	(8,961)	—
Profit (loss) for the year attributable to owners of the Company	**509,534**	**33,373**	**49,090**	**11,785**	**(66,164)**
Non-controlling interests					
Profit (loss) for the year/period from continuing operations	3,472	(4,522)	18,182	(1,707)	18,512
Loss for the year/period from discontinued operations	(6,202)	(448)	(612)	—	—
(Loss) profit for the year attributable to non-controlling interests	**(2,730)**	**(4,970)**	**17,570**	**(1,707)**	**18,512**
Other Financial Data					
EBITDA[1]	347,041	(46,807)	(19,365)	(13,229)	(9,968)
EBITDA margin[2]	35.0%	(34.2%)	(7.1%)	(27.1%)	(6.4%)

Notes:

(1) EBITDA consists of profit before interest income, changes in fair value of investment properties, income tax expense, depreciation of property, plant and equipment, finance costs, exchange gains and losses, gains and losses on disposal of properties, plant and equipment, write-offs of other receivables and share-based payments. EBITDA is not a standard measure under HKFRSs. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as 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. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Terms and Conditions of the Notes. Interest expense excludes amounts capitalised.

(2) EBITDA margin is calculated by dividing EBITDA by revenue for the relevant period, expressed as a percentage.

Selected Consolidated Statements of Financial Position Data

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	(HK$'000)			
				(Unaudited)
Non-current Assets				
Prepaid lease payments	1,751	1,616	—	—
Property, plant and equipment	95,965	132,887	69,964	63,591
Investment properties	982,353	1,339,024	2,079,012	2,225,000
Goodwill	174,605	174,605	174,605	174,605
Prepayment for acquisition of an intangible asset	—	—	22,724	32,979
Deposit paid on acquisition of a subsidiary	58,824	121,951	—	—
Prepayment for acquisition of an available-for-sale investment	—	—	—	12,500
	1,313,498	1,770,083	2,346,305	2,508,675
Current Assets				
Inventories	9,851	4,503	938	858
Inventory of properties	958,195	1,213,864	1,456,297	1,502,016
Trade and other receivables	225,730	245,179	148,614	250,716
Prepaid tax	200	156	257	261
Pledged bank deposits	9,978	3,307	51,953	71,620
Bank balances and cash	263,602	150,186	124,986	107,942
	1,467,556	1,617,195	1,783,045	1,933,413
Total Assets	2,781,054	3,387,278	4,129,350	4,442,088
Non-current Liabilities				
Deferred tax liabilities	224,115	280,444	388,708	397,716
Borrowings — due after one year	294,118	128,049	466,049	675,000
Convertible notes	62,172	64,464	66,932	68,225
Deposits received for sale and lease of properties — non-current portion	—	123,706	113,578	107,139
Deferred income — non-current portion	—	22,114	11,665	9,503
	580,405	618,777	1,046,932	1,257,583
Current Liabilities				
Trade and other payables	377,384	323,167	523,488	561,088
Deposits received for sale and lease of properties — current portion	77,837	122,244	220,139	158,452
Obligations under financial leases	169	—	—	—
Tax payable	122,168	118,910	27,212	27,386
Amounts due to non-controlling shareholders of subsidiaries	43,804	58,962	10,354	—
Amounts due to related parties	52,246	114,298	162,766	189,064
Borrowings — due within one year	171,474	353,478	364,354	456,950
Deferred income — current portion	—	28,189	5,760	4,140
	845,082	1,119,248	1,314,073	1,397,080
Total Liabilities	1,425,487	1,738,025	2,361,005	2,654,663
Total Equity and Liabilities	2,781,054	3,387,278	4,129,350	4,442,088
Net Current Assets	622,474	497,947	468,972	536,333
Total Assets Less Current Liabilities	1,935,972	2,268,030	2,815,277	3,045,008

Selected Consolidated Statements of Cash Flows

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
			(HK$'000)		
				(Unaudited)	
Net cash generated from (used in) operating activities	254,660	(213,264)	(237,449)	(108,347)	(284,145)
Net cash used in investing activities	(267,926)	(245,387)	(107,952)	(5,918)	(52,442)
Net cash generated from financing activities	82,772	327,860	368,837	78,820	338,093
Net increase (decrease) in cash and cash equivalents	69,506	(130,791)	23,436	(35,445)	1,506
Effect of foreign exchange rate changes	33,360	10,742	1,269	1,206	1,117
Cash and cash equivalents at beginning of the year/period	169,417	272,283	152,234	152,234	176,939
Cash and cash equivalents at end of the year/period	**272,283**	**152,234**	**176,939**	**117,995**	**179,562**
Analysis of cash and cash equivalents					
Bank balances and cash	263,602	150,186	124,986	115,348	107,942
Pledged bank deposits	9,978	3,307	51,953	—	71,620
Bank overdrafts	(1,297)	(1,259)	—	—	—
Bank balances and cash included in a disposal group classified held for sale	—	—	—	2,647	—

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

The following discussion should be read in conjunction with our audited consolidated financial statements and unaudited condensed consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. Our consolidated financial statements were prepared in accordance with HKFRSs. In this section of this offering memorandum, references to "2010," "2011" and "2012" refer to our financial years ended 31 December 2010, 2011 and 2012, respectively.

Overview

We are an integrated commercial and residential property developer, owner and operator in China. We are engaged in property development, property investment, property management and hotel businesses located primarily in Wuhan, Hangzhou and other first and second tier cities. Our business portfolio comprises development of residential properties, offices and commercial properties. We generally sell our residential and office properties upon completion of development and retain selected commercial properties for lease. Depending on market conditions, we may in certain cases elect to lease back the properties we have sold and operate hotels located on such properties. We also provide property management services to residents of the properties sold by us. By diversifying our business to include property investment, property management and hotel business, we believe we are able to maintain steady growth and secure recurring and stable revenue streams after the completion of our property projects.

As at 30 June 2013, the total GFA of our completed properties and properties under development was approximately 510,301 sq.m. For the six months ended 30 June 2013, our property development, property investment, hotel business and property management businesses accounted for 73.4%, 11.8%, 12.5% and 2.3%, respectively, of our total revenue. Our net profit was HK$506.8 million, HK$28.4 million and HK$66.7 million for the years ended 31 December 2010, 2011 and 2012, respectively. We had a net loss of HK$47.7 million for the six months ended 30 June 2013, primarily due to increased costs of sales as a result of our business expansion, one-off share-based payment and one-off Directors' bonus, as well as a decrease in the fair value gains of our investment properties compared with the same period in 2012. We had a net debt to equity ratio of 63.8% as at 30 June 2013 as a result of our financial discipline over all aspects of our operations from land acquisition to construction.

Key Factors Affecting Our Results of Operations

Our business, prospects, financial condition and results of operations have been, and we expect will continue to be, affected by a number of factors, including but not limited to those described below.

Economic Growth, Urbanisation and Demand for Properties in China

Overall economic conditions and demand for properties in China, and in particular cities along the Yangtze River, where we currently have substantially all of our operations, have had, and will continue to have, a significant impact on our business, prospects, financial condition and results of operations. Economic growth, increasing urbanisation and rising standards of living have been the main driving forces behind the growth of market demand for commercial and residential properties in China. The economic growth attributable to the private business sector and the general level of disposable income are especially important to our operations. Any economic downturn in China generally or, in particular, in the cities where we operate, could adversely affect our business, prospects, financial condition and results of operations. In this regard, China's rate of economic growth has slowed in recent years, and a portion of continuing economic growth has been driven by increased borrowing by local governments and corporations. Measures designed to control liquidity in the economy and to reduce speculation in the residential property market may also affect the property market and our results of operations.

Regulatory Measures in the Real Estate Industry in China

PRC governmental policies and measures on property development and related industries have a direct impact on our business and results of operations. From time to time, the PRC government adjusts its macroeconomic control policies to encourage or restrict development in the private property sector through regulating, among others, land supply, foreign exchange, pre-sales of properties, land usage, plot ratio, bank financing, taxation, and foreign investment. Since the second half of 2009, the PRC government has stepped up its regulation in the real estate industry in order to control excessive liquidity and speculative property investments. Policies restricting property purchases were adopted in nearly 50 cities in 2011, as compared to fewer than 25 cities in 2010. In 2012, the PRC government continued to implement selected policies aimed at further cooling of the real estate market, although at the same time the PRC government implemented measures to support the growth of the Chinese economy, such as lowering banks' reserve requirement ratio and reducing benchmark lending rates. On 20 February 2013, the PRC government released five new policies to regulate the real estate market, including new initiatives to control speculative property investments, increase housing and land supply and step up construction of affordable housing. On 26 February 2013, the State Council issued six property tightening measures, which included an income tax levy on homeowners of as high as 20% on profit made from selling their homes. The State Council also stated that local branches of the central bank in certain cities could increase their down payment rate and mortgage loan interest rate for homebuyers purchasing a second unit. In response to these property tightening measures at the national level, certain local governments (for example, the local governments of Shanghai, Beijing, Guangdong Province and Guangzhou Municipality) issued corresponding implementing rules at the provincial or municipal level. The detailed implementation practices vary between local governments. In addition, on 18 May 2013, the State Council approved the Opinions in relation to the Priorities of the Deepening of Economic System Reform of the Year 2013 (《關於2013年深化經濟體制改革重點工作的意見》) prepared by the NDRC, which provide that the MOF, SAT and other departments will be responsible to procure the expansion of the scope of the reform of real estate tax for residential property. Regulatory policies affecting the real estate industry, which include tax policies, land grant policies, pre-sale policies, interest rate policies, consumer credit and mortgage financing policies and other macro-economic policies will continue to have a significant impact on demand for our properties, and thus our business, financial condition and results of operations. See "Regulations."

Segment and Property Mix

We derive our revenue primarily from sale of residential and commercial properties and to a lesser extent from property investment, hotel operation and property management. The prices and gross margins of our properties vary by the location and the classification and end use of properties that we develop and sell or rent. We develop complexes which include both residential and commercial properties for sale and shopping malls which we may operate ourselves. Commercial properties generally command higher average selling prices per sq.m., and have higher gross profit margins than residential properties. In addition, we have in the past retained, and may continue in the future to retain, a portion of our commercial properties as investment properties upon completion. Our property investment projects have higher margins than property development projects. As a result, our gross margin is affected by the proportion of revenue attributable to our property investment projects, which have higher margins compared to revenue from sales of properties. Our business, prospects, financial condition, results of operations and cash flows generated from our operations may vary significantly from period to period depending on the type of properties we sell and their average selling prices, and the proportion of completed commercial properties we retain as investment properties.

In addition, our revenue and cash flow will also vary according to the mix of properties held for investment and properties held for sale. A higher proportion of completed properties retained as investment properties may lower our revenues and cash inflows in the short-term due to the loss of cash inflows and revenues generated during pre-sales and upon delivery. However, investment properties typically generate stable recurring income that does not fluctuate materially from period to period, while sales of properties, while they produce relatively larger revenues in the period during which the sales are recorded, can result in revenues that fluctuate significantly from period to period depending upon when sales occur.

Fair Value Adjustments of Investment Properties

The fair value of our investment properties amounted to HK$982.4 million, HK$1,339.0 million, HK$2,079.0 million and HK$2,225.0 million as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, we had fair value gains on our investment properties of HK$478.3 million, HK$205.1 million, HK$282.8 million and HK$23.5 million.

Our investment properties primarily include commercial properties leased for rental income. Our investment properties are stated at their fair value on our consolidated statements of financial position as non-current assets at the end of each reporting period on the basis of valuations by an independent property valuer. Gains or losses arising from changes in the fair value of our investment properties are accounted for as gains or losses upon revaluation in our consolidated statements of comprehensive income, 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 fair value of our investment properties, as so determined at a particular date, may have been higher or lower if the valuer used a different set of bases or assumptions or if the valuation was conducted by another qualified independent professional valuer using a different set of bases and assumptions. In addition, upward revaluation adjustments reflect unrealised capital gains on our investment properties as at the relevant reporting period ends and do not generate any cash inflow available for our operations or financial obligations. The amounts of fair value adjustments have been, and may continue to be, significantly affected by the prevailing property market conditions in China and may increase or decrease. We cannot assure you that similar levels of fair value gains can be sustained in the future.

Project Development Schedules

The number and GFA of properties that we can develop or complete during any particular period is limited due to the substantial capital and management resources required for land acquisition and project development. Our cash flows and revenues are affected by project development schedules due to the time lag between commencement of a project, pre-sales and completion and delivery of the properties. Pre-sales constitute an important source of our operating cash inflow during our project development. PRC law allows us to pre-sell properties before their completion upon obtaining the pre-sale permit from the relevant governmental authorities and requires us to use the pre-sale proceeds to develop the relevant pre-sale property projects. However, we do not recognise revenue from the pre-sale of a property until the property has been delivered to the purchaser. The progress of a property development may affect our ability to deliver properties to our customers within the specified time limit and in turn affect the amount and timing of cash inflows from pre-sales. In addition, reduced cash inflow from pre-sales of our properties will increase our reliance on external financing and will impact our ability to finance our continuing property developments.

Project development schedules depend on a number of factors, including the performance and efficiency of our independent contractors and our ability to finance construction with bank borrowings and pre-sales. Any construction delays or difficulties in obtaining relevant government licences and approvals and other factors could materially and adversely affect our project development schedules. In addition, as market demand fluctuates, revenues in a particular period may also depend on our ability to gauge the expected market demand at the expected launch time for completion and delivery of a particular project. As a result of these factors, our business, financial condition and results of operations have fluctuated in the past and may continue to fluctuate in the future.

Land Acquisition and Availability of Land Suitable for Development

Our growth depends on our ability to secure quality land at prices that can yield reasonable returns. With the maturing of the PRC property market, competition among developers to acquire land suitable for commercial and residential property development has intensified. Undeveloped land in China's major cities is becoming increasingly scarce. In addition, the statutory public tender, auction and listing-for-sale process for the grant of state-owned land use rights may further increase competition for land suitable for development. As a result, we expect that our land acquisition costs may continue to increase in the future. Other PRC governmental policies also affect our cash flows and ability to acquire suitable land for our operations. See "Regulation." Despite these factors, we will continue to seek to acquire land through either acquisition of entities with land use rights or public tender and auction, which we believe will enable us to maintain a sufficient land bank for future development.

Fluctuations in Development Costs

Our results of operations are affected by our project development costs, a significant part of which are comprised of payments to our construction contractors, mainly consisting of construction materials costs and labour costs. Any rise in construction materials costs will impact our cost of sales and overall project development costs. In addition, as we pre-sell some of our properties prior to their completion, we will be unable to pass any increased costs with respect to such properties to our customers if construction costs increase subsequent to the time of such pre-sale. We expect our development costs will continue to be influenced by fluctuations in the cost of construction materials, and to a lesser extent by the recent rise in labour costs.

Access to and Cost of Financing

The real estate industry is capital intensive. Bank and other borrowings have been an important source of funding for our property development. As at 31 December 2010, 2011 and 2012 and 30 June 2013, our bank and other borrowings (including convertible notes) amounted to HK$527.8 million, HK$546.0 million, HK$897.3 million and HK$1,200.2 million, respectively, of which 84.3%, 83.1%, 82.3% and 88.8% are borrowings by our PRC subsidiaries. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our interest expenses on bank loans, overdrafts and other borrowings wholly repayable within five years amounted to HK$61.1 million, HK$36.9 million, HK$88.1 million and HK$53.6 million, respectively. Most of our bank borrowings bear floating interest rates linked to PBOC's benchmark interest rates. The PBOC publishes benchmark interest rates for the term of six months to one (inclusive), one year to three years (inclusive), three years to five years (inclusive) and more than five years, which directly affect the property mortgage rates offered by commercial banks in China. Any increase in such benchmark interest rates will increase the finance costs of our project developments. In addition, any increase in the HIBOR published by the HKAB may also result in an increase in our interest costs as our offshore loan facility bears an interest rate linked to HIBOR. If lenders approve our loans for the construction of specific projects, the relevant proceeds cannot be applied to the construction of another project and the loans generally may not be renewed. Our access to and cost of financing are also affected by restrictions imposed from time to time by the PRC government on bank lending for property development. To the extent the PRC government intends to slow the development of the private property sector, either by restricting loans to private property developers or by increasing interest rates of such loans, our access to capital and cost of financing may be adversely affected, and our revenues and net profits will be significantly reduced. In addition, any fluctuations in global credit markets, as were seen during the recent global economic downturn, could materially and adversely affect us insofar as they impact interest rates and the availability of credit in the PRC and abroad.

Land Appreciation Tax

Upon recognition of revenues from properties sold, we recognise LAT as an expense. We make provisions for LAT based on the appreciation of land value, which is calculated based on the sales of properties less deductible expenditures, including capitalised borrowing costs and certain property development expenditures. Nonetheless, the implementation and settlement of the LAT varies among different tax jurisdictions in various cities of the PRC. As a result, we have estimated our LAT liabilities based on our understanding of the requirements under the relevant PRC tax laws and regulations. Our final LAT liabilities are to be determined by the relevant tax authorities after completion of our property development projects, and could be different from the amounts that we have initially estimated and recorded, which could impact the income tax expense and the related income tax provisions in the periods in which such tax is finalised with the relevant tax authorities. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our LAT expenses amounted to HK$67.4 million, HK$11.4 million, HK$10.4 million and HK$14.7 million, respectively.

Critical Accounting Policies

We have prepared our consolidated financial information in accordance with HKFRSs. The preparation of financial information in conformity with HKFRSs requires us to make judgements, estimates and assumptions that affect:

- the reported amounts of our assets and liabilities at the end of each reporting period;
- the disclosure of our contingent assets and liabilities at the end of each reporting period; and
- the reported amounts of revenue and expenses during each reporting period.

We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and our best assumptions, which together form our basis for making judgements about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates and expectations. Some of our accounting policies require a higher degree of judgement than others in their application.

When reviewing our financial information, you should consider:

- our selection of critical accounting policies;
- the judgement and other uncertainties affecting the application of such policies; and
- the sensitivity of reported results to changes in conditions and assumptions.

We believe the following accounting policies involve the most significant judgements and estimates used in the preparation of our consolidated financial information.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Inventory of properties is transferred to investment properties when it is evidenced by the commencement of an operating lease to another party. The difference between the fair value and the carrying amount at the date of transfer is recognised in profit and loss.

Inventory of Properties

Inventory of properties includes properties under development and properties held for sale which are included in current assets at the lower of cost and net realisable value.

The costs of properties under development consist of construction expenditures, amounts capitalised in respect of amortisation of upfront payments of land use rights, borrowing costs directly attributable to construction of such properties and other direct costs. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less costs expected to be incurred to completion and selling and marketing costs. On completion, the properties, together with related land use rights, are transferred to completed properties held for sale.

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, which are classified as properties held for development under non-current assets.

Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to cover or settle the carrying amount of its asset and liabilities.

Revenue Recognition

Revenue from sales of properties is recognised when the risks and rewards of the properties transferred to the purchaser, which is when the construction of the relevant properties have been completed and properties have been delivered to the purchaser pursuant to the sale and purchase agreements, and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in current liabilities.

Rental income from operating lease is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant lease. Hotel operation income is recognised upon the provision of services and the utilisation by guests of the hotel facilities. Management service income is recognised when management services are provided.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. We capitalise a portion of our borrowing costs to the extent that such costs are directly attributable to the acquisition and construction of a project. In general, we capitalise borrowing costs incurred from the commencement of the planning and design of a project, which typically precedes the receipt of a construction works commencement permit, until the completion of construction. For any given project, the borrowing costs incurred after completion of the project are not capitalised, but accounted for as finance costs in the period in which they are incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Description of Certain Consolidated Profit or Loss Items

Revenue

Our revenue for the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 primarily consisted of revenue derived from our: (i) property development business; (ii) property investment business; (iii) hotel business; and (iv) property management business. The following table sets forth a breakdown of our revenue and the percentage of total revenue attributable to each business segment for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	HK$ in millions	%	HK$ in millions	%	HK$ in millions	%	HK$ in millions	%	HK$ in millions	%
							(unaudited)			
Property development	926.7	92.4	111.0	62.5	180.1	63.5	—	—	114.6	73.4
Property investment	—	—	24.5	13.8	51.4	18.1	32.9	55.2	18.5	11.8
Hotel business	—	—	0.8	0.5	33.0	11.7	13.8	23.2	19.5	12.5
Property management	—	—	0.6	0.3	6.9	2.4	2.1	3.5	3.6	2.3
Total continuing operations	926.7	92.4	136.9	77.1	271.4	95.7	48.8	81.9	156.2	100.0
Discontinued operations[1]	76.5	7.6	40.6	22.9	12.1	4.3	10.8	18.1	—	—
Total	1,003.2	100.0	177.5	100.0	283.5	100.0	59.6	100.0	156.2	100.0

(1) Discontinued operations refer to revenues from production and distribution of snack food, convenient frozen food and other food products in the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012, as well as the discontinued health products business in 2010.

Property development

During the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, we derived our revenue primarily from sale of commercial and residential properties. We recognise revenue from sale of properties after we receive the relevant certificate of completion and the properties are sold and delivered. The GFA of properties sold and delivered in any given period was driven primarily by property development schedules and market demand, including market demand of prior periods during which we pre-sold the properties.

The following table sets forth, for the periods indicated, total revenue derived from each of the projects we developed and completed, the aggregate GFA of properties sold and delivered and the average selling prices per sq.m. for these properties, as measured by dividing the revenue by the aggregate GFA sold:

	Year ended 31 December									Six months ended 30 June		
	2010			2011			2012			2013		
	Total Revenue HK$ millions	GFA sold sq.m.	Avg. selling price HK$/ sq.m.	Total Revenue HK$ millions	GFA sold sq.m.	Avg. selling price HK$/ sq.m.	Total Revenue HK$ millions	GFA sold sq.m.	Avg. selling price HK$/ sq.m.	Total Revenue HK$ millions	GFA sold sq.m.	Avg. selling price HK$/ sq.m.
Future City	847.9	78,445	10,809	111.0	10,020	11,078	4.5	414	10,870	5.8	477	12,159
Future Mansion	—	—	—	—	—	—	175.6	13,540	12,969	108.8	9,485	11,471
Qiandao Lake Villa Phase I	78.8	1,922	40,999	—	—	—	—	—	—	—	—	—
Total	926.7	80,367	11,531	111.0	10,020	11,078	180.1	13,954	12,907	114.6	9,962	11,504

Our development projects under construction currently include Zhongshui • Longyang Plaza in Wuhan, Mei Lai International Centre and Qiandao Lake Villa (Phase II and Phase III) in Hangzhou and Hohai Project in Nanjing. To respond to the uncertainties in the PRC property market, we maintain a flexible and balanced approach in controlling the progress of developing and acquiring projects to mitigate operating risks while enabling us to maintain our financial condition.

Consistent with industry practice, we typically enter into sale and purchase agreements with customers while the properties are still under development but after satisfying the conditions for pre-sales in accordance with PRC laws and regulations. In general, there is a time difference between the time we commence pre-sale of properties under development and the completion of such properties. We do not recognise any revenue from the pre-sale of our properties until such properties are completed (as evidenced by obtaining the certificate of completion) and the property has been delivered to the purchasers. Before the delivery of a pre-sold property, payments received from purchasers are recorded as "Deposits received for sale and lease of properties — current portion" under "Current Liabilities" on our consolidated statements of financial position. As our revenue from sale of properties is recognised upon the delivery of properties, the timing of delivery may affect not only the amount and growth rate of our property development revenue but may also cause changes in other payables and accruals to fluctuate from period to period.

Property investment

During the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, revenue derived from our property investment business represents revenue received from the operations of Future City Shopping Centre owned by us. The Future City Shopping Centre has a total GFA of approximately 55,362 sq.m. including parking spaces. As at 30 June 2013, the fair value of the Future City Shopping Centre was estimated to be HK$1,360.0 million. In March/April 2013, we initiated a tenancy-mix optimisation project to further improve our rental income from the Future City Shopping Centre. Rental income and occupancy rates fell during the period that the project was carried out due to renovation work and the time the properties were vacant before new tenants moving in. For the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, we recorded rental income from the Future City Shopping Centre of approximately HK$24.5 million, HK$51.4 million and HK$18.5 million, respectively. During the six months ended 30 June 2013, the average occupancy rate of the Future City Shopping Centre was approximately 62%.

The effective average annual rental rate per sq.m. of our Future City Shopping Centre (as measured by dividing the revenue by the aggregate GFA leased) for the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013 was HK$2,143.6 per sq.m., HK$1,543.5 per sq.m. and HK$1,590.4 per sq.m., respectively.

We also intend to operate the commercial area located within the Mei Lai International Centre in Yuhang District of Hangzhou as a shopping mall, which is expected to be completed in late 2013 to early 2014. The shopping mall has a GFA of 57,646 sq.m. including parking spaces. As at 30 June 2013, the fair value of the commercial facilities of Mei Lai International Centre was estimated to be HK$571.3 million.

In addition, after we discontinued our food business in mid-2012, Huadu Land was held as investment properties under redevelopment. In September 2013, Guangzhou Greenland obtained the relevant land use rights in our Huadu Land through PRC government-organised auction for a consideration of RMB478.0 million. According to the public announcement of Guangzhou Municipal Land Resources and Housing Administrative Bureau dated 15 September 2013, and as advised by our PRC legal counsel for the Huadu project, we expect to receive a compensation of RMB334.6 million (before any expenses and/or tax deduction) by the local government for the loss of the land use rights. See "Business — Recent Developments — Huadu Project."

Hotel business

During the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, revenue derived from our hotel business primarily represents revenue we receive from management of our business hotel, the Wuhan Future City Hotel, which has 394 guest rooms. We also generate revenue from our Qiandao Lake Villa project, where we operate a featured hotel, Yuehuzhuang Hotel.

We also plan to operate a five-star hotel under our own brand name upon completion of our Hohai Project. Hohai Project is located in Xikang Road, Gulou District, Nanjing, Jiangsu Province, in close proximity to the main entrance of Hohai University and Jiangsu provincial government.

Property management

Revenue derived from our property management business represents primarily property management fees received from property management services provided to residents and tenants of our properties, as well as from our management of the parking lots in our Future City project.

We expect the revenue from this segment to increase in the future as a result of increased management fees due to an increase in our investment properties portfolio as we develop and/or operate additional properties.

Cost of Sales

Cost of sales, which includes continuing and discounted operations, comprises primarily costs incurred for our property development, representing 88.5%, 59.8%, 68.6% and 76.2% of our cost of sales for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. Our cost of sales in property development primarily comprises development costs, land costs and borrowing costs.

Development costs. Our development costs represent costs for the design and construction of a property project, consisting primarily of fees paid to our contractors, including contractors responsible for civil engineering construction, landscaping, equipment installation and interior decoration, as well as infrastructure construction costs, design costs and certain government surcharges. Our construction costs are affected by a number of factors such as price movements for construction materials, location and types of properties, choices of materials and investments in ancillary facilities. Substantially all of the costs of construction materials are accounted for as part of the contractor fees upon settlement with the relevant contractors.

Land costs. Our land costs arise as we acquire our land primarily through the acquisition of equity interests in subsidiary project companies which hold the land use rights. Accordingly, our land costs represent costs incurred with respect to acquisitions of the equity interests in such project companies, including land premiums and other land-related taxes and government surcharges. In addition to economic development and property market conditions in the PRC, our land costs are affected by the location of the property projects and the timing of acquisitions.

Borrowing Costs. We also incur borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. See "— Critical Accounting Policies — Borrowing Costs."

Our cost of sales in property investment primarily comprises utilities fees such as water and electricity. Our cost of sales in hotel business primarily comprises the rental costs paid to the property owners as we lease back the hotels for operation and depreciation of leasehold improvement. Our cost of sales in property management primarily comprises staff salary expenses.

Gross Profit and Gross Profit Margin

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our gross profit, which includes continuing and discontinued operations, was HK$474.8 million, HK$79.8 million, HK$92.8 million and HK$36.7 million, respectively. Our gross profit margin was 47.3%, 45.0%, 32.7% and 23.5%, respectively, for the same periods.

Other Operating Income

Other operating income primarily includes exchange gains, interest income from bank deposits and sundry income, including miscellaneous income from tenants for certain renovation, late charge fees and related matters.

Changes in Fair Value of Investment Properties

Investment properties are properties held for rental income and for capital appreciation and are measured at cost on initial recognition. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Property that is being constructed or developed for future use as investment property is classified as investment property.

Our investment properties were valued at the beginning of the relevant periods and revalued at the end of relevant periods on an open market value or existing use basis by an independent professional valuer, and any appreciation or depreciation in the fair value of our investment properties is recognised as fair value gains or losses on our consolidated statements of profit or loss in the period in which they arise.

Selling and Distribution Expenses

Selling and distribution expenses primarily include advertising and promotional expenses, office expenses and others. Advertising and promotional expenses primarily relate to advertisements in newspapers and magazines and on billboards and certain other promotional events.

Administrative Expenses

Administrative expenses primarily include staff salaries, bonuses and benefits, depreciation and amortisation, office expenses, traveling expenses, professional fees, utilities, land use tax and stamp duty. Our professional fees primarily include legal, consulting and auditing expenses.

Finance Costs

Finance costs consist primarily of interest expenses on bank loans, overdrafts and other borrowings wholly repayable within five years and effective interest expense on convertible notes, less amounts capitalised in the cost qualifying assets.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK$ in millions				
				(unaudited)	
Interest expenses on bank loans, overdrafts and other borrowings wholly repayable within five years	49.4	32.1	83.2	26.7	51.1
Effective interest expense on convertible notes	11.7	4.8	4.9	2.4	2.5
Total interest expenses for the year	61.1	36.9	88.1	29.1	53.6
Less: amounts capitalised in the cost qualifying assets	(38.2)	(14.0)	(48.4)	(11.0)	(42.2)
Interest expenses charged to consolidated statement of profit or loss	22.9	22.9	39.7	18.1	11.4

The weighted average per annum capitalisation rate on funds borrowed generally, calculated as the total capitalised interests divided by the related borrowings, was 6.78%, 2.27%, 3.96% and 7.01%, respectively, for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013.

Income Tax Expenses

Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax includes PRC enterprise income tax and LAT payable by our PRC subsidiaries. Pursuant to the EIT Law, the income tax rate for our PRC subsidiaries is 25% effective from 1 January 2008. We did not provide for any Hong Kong Profits Tax as we had no business operations subject to Hong Kong Profits Tax during the years ended 31 December 2010 and 2012 and the six months ended 30 June 2013. We provided HK$90,000 Hong Kong Profits Tax in 2011 in relation to the rental income of our factory in Hong Kong for our discontinued food business. Currently, we are not subject to any Cayman Islands income tax. See "Taxation."

All appreciation arising from the sale or transfer of land use rights, and 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 determined in accordance with 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, but this exemption does not extend to sales of commercial properties. Under PRC tax laws and regulations, our properties in the PRC are subject to LAT on the appraised value of the land and the improvements on the land upon the sale of such properties. We are required to pay 1% to 3% of our sales and pre-sales proceeds as prepaid LAT. During the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, we fully and timely paid the LAT for our properties in accordance with the relevant laws and regulations and accounting policies.

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our LAT amounted to HK$67.4 million, HK$11.4 million, HK$10.4 million and HK$14.7 million, respectively. During the same periods, our effective tax rate was 34.1%, 41.1%, 44.4% and (101.7%), respectively. The effective tax rate for the six months ended 30 June 2013 was negative as we reported a net loss before tax for that period.

Discontinued Operations

Our discontinued operation in 2010 refers to our seabuckthorn business, including the cultivation of seabuckthorn, as well as manufacture, sales, research and development of seabuckthorn-related health products. Our discontinued operation in 2011 and 2012 refers to our Wah Yuen food business. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the discontinued operations reflected a net loss of approximately HK$7.3 million, HK$48.1 million, HK$43.4 million and nil, respectively.

Profit/Loss Attributable to Owners of the Company

We had profit attributable to the owners of the Company of HK$509.5 million, HK$33.4 million and HK$49.1 million for the years ended 31 December 2010, 2011 and 2012, while our loss attributable to the owners of the Company for the six months ended 30 June 2013 was HK$66.2 million.

Results of Operations

The following table sets forth our results of operations for the periods indicated. Our historical results presented below are not necessarily indicative of future results.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK$ in millions				
		(restated)		(unaudited)	
Continuing operations					
Revenue	990.8	136.9	271.4	48.8	156.2
Cost of sales	(515.2)	(65.1)	(180.5)	(25.8)	(119.5)
Gross profit	475.6	71.8	90.9	23.0	36.7
Fair value gain in respect of investment properties	478.3	205.1	282.8	77.8	23.5
Other operating income	3.4	5.6	1.7	0.5	0.7
Selling and distribution expenses	(74.8)	(7.1)	(17.8)	(4.6)	(2.4)
Administrative expenses	(79.7)	(122.6)	(120.0)	(37.4)	(70.8)
Finance costs	(22.9)	(22.9)	(39.7)	(18.1)	(11.4)
Profit (loss) before tax	779.9	129.9	197.9	41.2	(23.7)
Income tax expense	(265.8)	(53.4)	(87.8)	(22.2)	(24.0)
Profit (loss) from continuing operations	514.1	76.5	110.1	19.0	(47.7)
Discontinued operations					
Loss from discontinued operations	(7.3)	(48.1)	(43.4)	(8.9)	—
Profit (loss) for the year/period	506.8	28.4	66.7	10.1	(47.7)
Profit (loss) attributable to:					
Owners of the Company	509.5	33.4	49.1	11.8	(66.2)
Non-controlling interests	(2.7)	(5.0)	17.6	(1.7)	18.5

Comparison of Six Months Ended 30 June 2013 to Six Months Ended 30 June 2012

Revenue. Our revenue increased by 220.1% from HK$48.8 million for the six months ended 30 June 2012 to HK$156.2 million for the same period in 2013. The increase was mainly due to an increase in sales revenue of Future Mansion, which was completed in the second half of 2012. The total GFA sold during the six months ended 30 June 2013 was 9,962 sq.m. at an average selling price of approximately HK$11,504 per sq.m., while no GFA was sold in the same period in 2012. Revenue from property investment decreased from HK$32.9 million in the six months ended 30 June 2012 to HK$18.5 million in the six months ended 30 June 2013, primarily due to the decreased leasing area as a result of a tenancy-mix optimisation project which we initiated in March/April 2013 at Future City Shopping Centre. Revenue from our hotel business and property management business increased from HK$13.8 million to HK$19.5 million and from HK$2.1 million to HK$3.6 million for the same periods, respectively, primarily due to the improvement in occupancy rates of our hotels and the increased utilisation rates of the parking lots in Future City which we manage.

Cost of sales. Our cost of sales increased by 363.2% from HK$25.8 million for the six months ended 30 June 2012 to HK$119.5 million for the six months ended 30 June 2013, primarily due to the increase in total GFA sold in 2013.

During the six months ended 30 June 2013, cost of sales also included cost of sales attributable to our property investment business, hotel business and property management business. These business lines had cost of sales of HK$4.9 million, HK$21.2 million and HK$2.3 million, respectively, in the six months ended 30 June 2013, representing a slight increase of HK$1.3 million, HK$0.8 million and HK$0.5 million, respectively, compared to the same period in 2012.

Gross profit and gross profit margin. Our gross profit increased by 59.6% from HK$23.0 million for the six months ended 30 June 2012 to HK$36.7 million in same period in 2013. We had a gross profit margin of 23.5% for the six months ended 30 June 2013, as compared with 47.1% for the same period in 2012. The decrease in gross profit margin in the six months ended 30 June 2013 was primarily due to an increase in the proportion of sales of properties compared to rental income from property investment, which typically have higher profit margins than sales of properties. Property sales contributed to 73.4% of our revenue in the six months ended 30 June 2013 due to increased sales of properties at Future Mansion, but such sales were nil in the six months ended 30 June 2012.

Other operating income. Other operating income increased by 40.0% from HK$0.5 million in the six months ended 30 June 2012 to HK$0.7 million for the six months ended 30 June 2013, primarily due to an increase in bank interest income as a result of our increased bank deposits.

Changes in fair value of investment properties. We recorded a net gain of HK$23.5 million for the six months ended 30 June 2013 from an increase in the fair value of the investment properties held by us, primarily reflecting the fair value gains of our Mei Lai International Centre and the Huadu Land.

Selling and distribution expenses. Our selling and distribution expenses decreased by 47.8% from HK$4.6 million for the six months ended 30 June 2012 to HK$2.4 million for the six months ended 30 June 2013, primarily due to decreased advertising and promotion expenses during the six months ended 30 June 2013 compared to the same period in 2012 when we incurred higher advertising and promotion expenses during the initial operation of Future City Shopping Centre and Wuhan Future City Hotel.

Administrative expenses. Our administrative expenses increased by 89.3% from HK$37.4 million for the six months ended 30 June 2012 to HK$70.8 million for the six months ended 30 June 2013, primarily due to a one-off share-based payment in the amount of HK$19.9 million made to our Directors, employees and consultants, a one-off Directors' bonus in the amount of HK$5.0 million and increased headcount for our development projects and operating teams in the six months ended 30 June 2013 compared to the same period in 2012.

Finance costs. Our finance costs decreased by 37.0% from HK$18.1 million for the six months ended 30 June 2012 to HK$11.4 million for the six months ended 30 June 2013, as we increased our bank borrowings for development projects, and finance costs from relevant bank borrowings that were capitalised on our consolidated statement of financial position increased.

Income tax expenses. Our income tax expenses increased by 8.1% from HK$22.2 million for the six months ended 30 June 2012 to HK$24.0 million for the six months ended 30 June 2013. The increase was primarily attributable to the deferred tax recognised from fair value gains in respect of revaluation of our investment properties and Enterprise Income Tax and LAT arising from properties sold during the six months ended 30 June 2013.

Discontinued operations. The result from Wah Yuen food business was classified as a discontinued operation in the six months ended 30 June 2012. For the six months ended 30 June 2012, the discontinued operation had a net loss of HK$8.9 million. No result was included in the six months ended 30 June 2013, as we discontinued the food business in June 2012.

Profits/(loss) attributable to owners of the Company. As a result of the foregoing, the loss attributable to the owners of our Company for the six months ended 30 June 2013 was HK$66.2 million, while a profit of HK$11.8 million was recorded for the same period in 2012.

Comparison of 2012 to 2011

Revenue. Our revenue increased 98.2% from HK$136.9 million in 2011 to HK$271.4 million in 2012, primarily due to an increase in revenue from sales of properties from HK$111.0 million in 2011 to HK$180.1 million in 2012. The increase was mainly due to increased sales of properties at Future Mansion, which was completed in the second half of 2012. Total GFA sold in 2012 was 13,954 sq.m., an increase of 39.3% compared with GFA sold in 2011. In addition, the average selling price increased by 16.5% from approximately HK$11,078 per sq.m. in 2011 to approximately HK$12,907 per sq.m. in 2012 primarily due to an increased proportion of revenue attributable to sales of Future Mansion in 2012, which generally has a higher average selling price as compared to Future City. Revenue from our property investment, hotel business and property management business increased from HK$24.5 million in 2011 to HK$51.4 million in 2012, from HK$0.8 million in 2011 to HK$33.0 million in 2012, and from HK$0.6 million in 2011 to HK$6.9 million in 2012, respectively. These increases were primarily due to our full year operations of Wuhan Future City Hotel and Future City Shopping Centre in 2012, as compared with only a few months' operation in the second half of 2011 for these businesses.

Cost of sales. Our cost of sales increased by 177.3% from HK$65.1 million in 2011 to HK$180.5 million in 2012. This increase was primarily due to an increase in total GFA sold in 2012.

Gross profit and gross profit margin. Our gross profit increased by 26.6% from HK$71.7 million in 2011 to HK$90.9 million in 2012. Our gross profit margin decreased from 52.4% in 2011 to 33.5% in 2012, primarily due to the sales of Future Mansion in 2012, which has a lower profit margin compared to Future City which has lower average construction costs due to its larger scale.

Other operating income. Other operating income decreased by 69.6% from HK$5.6 million in 2011 to HK$1.7 million in 2012, primarily due to a decrease in foreign exchange gains. We recorded higher foreign exchange gains in 2011 as compared to 2012, primarily due to a refund in the amount of RMB23.0 million from our previous investment project which was cancelled in 2011.

Changes in fair value of investment properties. Our gains on fair value changes of investment properties increased by 37.9% from HK$205.1 million in 2011 to HK$282.8 million in 2012, primarily due to an increase in fair value of the commercial facilities of Mei Lai International Centre and the Huadu Land.

Selling and distribution expenses. Our selling and distribution expenses increased by 149.5% from HK$7.1 million in 2011 to HK$17.8 million in 2012, primarily due to a significant increase in promotion and advertising expenses in connection with the pre-sales of Future Mansion in 2012.

Administrative expenses. Our administrative expenses decreased by 2.2% from HK$122.6 million in 2011 to HK$120.0 million in 2012, primarily due to less bonus paid to Directors in 2012 than in 2011, partially offset by an increase in administrative expenses in 2012 as a result of the full year operations of certain PRC properties, including the Wuhan Future City Hotel and Future City Shopping Centre, as compared with a few months' operations in 2011.

Finance costs. Our finance costs increased by 73.4% from HK$22.9 million in 2011 to HK$39.7 million in 2012, primarily due to an increase in our general borrowings for new business operations including our property management and hotel businesses, less interest to be capitalised. See "Description of Other Material Indebtedness — Term Loan Agreements."

Income tax expenses. Our income tax expenses increased by 64.4% from HK$53.4 million in 2011 to HK$87.8 million in 2012. The increase was primarily attributable to deferred tax provided in relation to the fair value change of investment properties, an increase in provision for enterprise income tax and also LAT, as a result of an increase in sales of residential properties and profit arising from the properties sold.

Discontinued operations. The result from Wah Yuen food business was classified as discontinued operation in 2011 and 2012. For the year ended 31 December 2012, the result from discontinued operation reflected the net loss of HK$43.4 million, a decrease by 9.8% from the loss of HK$48.1 million in 2011, as we discontinued the food business in June 2012.

Profit attributable to owners of the Company. As a result of the foregoing, our profit attributable to owners of our Company increased by 47.0% from HK$33.4 million in 2011 to HK$49.1 million in 2012.

Comparison of 2011 to 2010*

Revenue. Our revenue decreased by 82.1% from HK$990.8 million in 2010 to HK$177.5 million in 2011, primarily due to decreased revenues from sales of properties, as we sold properties at Future City primarily in 2010. The total GFA sold in 2011 was 10,020 sq.m., a decrease of 88% compared with 2010. In addition, the average selling price of our properties sold decreased by 3.9% from HK$11,531 per sq.m. in 2010 to HK$11,078 per sq.m. in 2011 primarily due to sales of Qiandao Lake Villa Phase I in 2010, which had a higher average selling price, and which did not recur in 2011. The decrease in revenue was also attributable to the decrease in revenue from our food business from HK$64.1 million in 2010 to HK$40.6 million in 2011, primarily due to losses arising from the Wah Yuen food business during 2011. The decrease was partially offset by the revenue from property investment of HK$24.5 million. We had nil revenue from property investment business in 2010, as Future City Shopping Centre commenced operations in August 2011.

Cost of sales. Our cost of sales decreased by 81.0% from HK$515.2 million in 2010 to HK$97.8 million in 2011, primarily due to a decrease in total GFA sold in 2011.

Gross profit and gross profit margin. Our gross profit decreased by 83.2% from HK$475.6 million in 2010 to HK$79.7 million in 2011. Our gross profit margin decreased to 44.9% in 2011 from 48.0% in 2010. The decrease in gross profit margin was primarily due to a decrease in the proportion of revenue from sales of properties compared to revenue from the food business. Our property development typically have higher profit margins than that of our food business.

Other operating income. Other operating income increased by 85.3% from HK$3.4 million in 2010 to HK$6.3 million in 2011, primarily due to an increase in foreign exchange gains, as a result of receiving a refund in Renminbi from our previous investment project which was cancelled in 2011.

Changes in fair value of investment properties. We recorded a gain of HK$205.1 million in 2011 arising from the increase in fair value of Future City Shopping Centre as compared to a gain of HK$478.3 million in 2010 during which we classified our Future City Shopping Centre as an investment property for the first time.

Selling and distribution expenses. Selling and distribution expenses decreased by 77.5% from HK$74.8 million in 2010 to HK$16.9 million in 2011, primarily due to a significant decrease in promotion expenses and sales commissions arising from property sales of Future City during 2011, as the majority of sales of the Future City project took place in 2010.

Administrative expenses. Administrative expenses increased by 59.2% from HK$79.7 million in 2010 to HK$126.9 million in 2011, primarily as we paid more bonuses to the Directors in 2011 than in 2010, and due to the increased number of employees and increased development projects in 2011.

* *2011 figures include discontinued operations results for comparison purposes.*

Finance costs. Our finance costs increased by 4.8% from HK$22.9 million in 2010 to HK$24.0 million in 2011, primarily due to an increase in interest expense not capitalised after we completed the construction work of Future City in December 2010.

Income tax expenses. Income tax expenses decreased by 79.9% from HK$265.8 million in 2010 to HK$53.5 million in 2011. The decrease was primarily attributable to decreased enterprise income tax and LAT payments due to decreased profits from the properties sold, which resulted in a decrease in our provisions for enterprise income tax and LAT.

Discontinued operations. We disposed of our health products business in September 2010, which was classified as a discontinued operation in 2010. Our Wah Yuen food business was discontinued in 2012 and results of operations of Wah Yuen food business were restated as discontinued operations in 2011. We had a net loss of HK$7.3 million and HK$48.1 million from the discontinued operations in 2010 and 2011, respectively.

Profit attributable to owners of the Company. As a result of the foregoing, the profit attributable to the owners of our Company decreased by 93.4% to HK$33.4 million in 2011 from HK$509.5 million in 2010.

Liquidity and Capital Resources

We operate in a capital intensive industry and have historically financed the development of our projects and other capital expenditures through a combination of internally generated funds, cash generated from proceeds of our sales and pre-sales, borrowings from commercial banks in the PRC and Hong Kong, and proceeds from issuance of debt and equity securities, such as the issuance of the convertible notes and shareholders' loans. Our short-term liquidity relates to servicing our debt and funding working capital requirements. Sources of short-term liquidity include cash balances and receipts from our operations. Our long-term liquidity requirement includes partial funding of our investments in new property projects and repayment of long-term debt, the 2017 Notes, and other long-term credit facilities. Sources of funding for our long-term liquidity requirements include new loans or debt issuance. We hold our cash and cash equivalents primarily in Renminbi, with the remaining amounts in Hong Kong dollars.

Cash Flows

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

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK$ in millions				
				(unaudited)	
Net cash (used in) generated from operating activities	254.6	(213.3)	(237.4)	(108.3)	(284.1)
Net cash used in investing activities	(267.9)	(245.4)	(108.0)	(5.9)	(52.4)
Net cash from financing activities	82.8	327.9	368.8	78.8	338.1
Net increase (decrease) in cash and cash equivalents	69.5	(130.8)	23.4	(35.4)	1.6
Cash and cash equivalents at beginning of year/period	169.4	272.3	152.2	152.2	176.9
Effect of foreign exchange rate changes	33.4	10.7	1.3	1.2	1.1
Cash and cash equivalents at end of year/period	272.3	152.2	176.9	118.0	179.6

Cash flows from operating activities

Our cash generated from operating activities resulted primarily from pre-sales and sales of our developed properties and from rental income from our investment properties, while cash used in operating activities resulted from our cash costs for the development of properties, cash costs of operating our completed properties held for sale and other investment properties, interest paid on bank borrowings that was capitalised and taxes paid.

For the six months ended 30 June 2013, our net cash used in operating activities was HK$284.1 million, representing an increase of HK$175.8 million from HK$108.3 million for the same period in 2012. This increase was mainly attributable to an increase in advance payments for construction of our Mei Lai International Centre.

For the year ended 31 December 2012, our net cash used in operating activities was HK$237.4 million, representing an increase of HK$24.1 million from HK$213.3 million for the year ended 31 December 2011. This increase was mainly attributable to tax settlement payments in 2012 for sales of properties in Future City.

For the year ended 31 December 2011, our net cash used in operating activities was HK$213.3 million, mainly attributable to an increase in advance payments for construction of our properties under development.

For the year ended 31 December 2010, our net cash generated from operating activities was HK$254.6 million, which was primarily attributable to our sales of residential properties of Future City.

Cash flows from investing activities

Our net cash used in investing activities have been primarily driven by investment in investment properties under development, additions of property, plant and equipment and acquisitions of intangible assets and subsidiaries.

For the six months ended 30 June 2013, our net cash used in investing activities was HK$52.4 million, which was primarily attributable to the renovation of Future City Shopping Centre.

For the year ended 31 December 2012, our net cash used in investing activities was HK$108.0 million, which was primarily attributable to (i) an increase in investment properties under development of HK$85.6 million, primarily due to investment in Future City Shopping Centre, and (ii) an increase in payment for construction costs of our Hohai project of HK$22.7 million, partially offset by cash inflow of HK$7.7 million resulting from our disposal of certain subsidiaries in relation to our food business.

For the year ended 31 December 2011, our net cash used in investing activities was HK$245.4 million, which was primarily attributable to (i) an increase in investment properties of HK$108.8 million, primarily due to investment in the Future City Shopping Centre, and (ii) purchases of property, plant and equipment of HK$77.4 million mainly in relation to the renovation and general operation of Wuhan Future City Hotel.

For the year ended 31 December 2010, our net cash used in investing activities was HK$267.9 million, which was primarily attributable to increased payments for acquisitions of subsidiaries, including 60% of the equity interest in Hangzhou Putian, 100% of the equity interest in Wuhan Kai Yue and 60% of the equity interest in HK Mei Lai International (Canada) Limited.

Cash flows from financing activities

Our cash generated from financing activities resulted primarily from our bank and other borrowings and proceeds from placing of debt and equity securities.

For the six months ended 30 June 2013, our net cash generated from financing activities was HK$338.1 million, which was primarily attributable to (i) new borrowings of HK$514.1 million and (ii) proceeds from placing of shares of HK$33.0 million, partially offset by a repayment of borrowings of HK$222.8 million.

For the year ended 31 December 2012, our net cash generated from financing activities was HK$368.8 million, which was primarily attributable to new borrowings of HK$797.4 million for our property development projects including the Mei Lai International Centre, partially offset by a repayment of borrowings of HK$471.2 million.

For the year ended 31 December 2011, our net cash generated from financing activities was HK$327.9 million, which was primarily attributable to (i) new borrowings of HK$293.2 million to finance new development projects in the PRC including Future Mansion, (ii) advances from related parties of HK$174.1 million, and (iii) proceeds of HK$139.2 million from the issue of new shares, partially offset by a repayment of borrowings of HK$293.0 million.

For the year ended 31 December 2010, our net cash generated from financing activities was HK$82.8 million, which was primarily attributable to (i) new borrowings of HK$470.6 million, and (ii) proceeds from issue of new shares of HK$202.4 million, partially offset by a repayment of borrowings of HK$477.7 million.

Net Current Assets

Our current assets primarily comprise of inventory of properties, trade and other receivables and bank balances and cash. We had net current assets of HK$622.5 million, HK$497.9 million, HK$469.0 million and HK$536.3 million as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively.

Restricted Bank Deposits

A portion of our bank deposits are pledged to banks as security for certain banking facilities granted to us, in which case the use of the restricted bank deposits, subject to the banks' approval, is restricted to the purposes as set out in the relevant loan agreements. As at 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our restricted bank deposits were HK$10.0 million, HK$3.3 million, HK$52.0 million and HK$71.6 million, respectively. Our restricted bank deposits increased significantly as at the end of 2012 and 30 June 2013, primarily due to a charge over our deposit of HK$50 million pursuant to the loan facility agreements we entered into with HSBC. See "Description of Material Indebtedness — HIBOR Loan Facility."

Working Capital

As at 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our cash and cash equivalents, excluding restricted cash, amounted to HK$263.6 million, HK$150.2 million, HK$125.0 million and HK$107.9 million, respectively. We receive cash inflows from pre-sales of our properties and project-specific bank loans. We are permitted to pre-sell our properties under development when we obtain the relevant pre-sale permits. In addition to cash inflows from pre-sales, we typically obtain project-specific bank loans once we receive the work commencement permits for our projects or project phases, using the relevant land use rights and properties as security. We may also from time to time raise additional funds through debt and/or equity financings. Taking into account a portion of the net proceeds available to us from the issue of the Notes, our cash and cash equivalents on hand, our available credit facilities and cash generated from our future operations, we believe we have sufficient working capital to meet our financial requirements for at least the next year from the date of this offering memorandum.

Indebtedness

Property developments require substantial capital investment for land acquisition and construction. We primarily fund our property developments from internally generated funds, borrowings from banks and related parties, proceeds from sales and pre-sale of our developed properties and proceeds from issuance of both debt and equity securities. Our financing methods may vary from project to project and are subject to the limitations imposed by PRC regulations and monetary policies. As at 31 December 2010, 2011 and 2012 and 30 June 2013, we had the following outstanding bank and other borrowings:

	As at 31 December			As at 30 June	
	2010	2011	2012	2012	2013
	HK$ in millions				
				(unaudited)	
Bank overdrafts	1.3	1.3	—	—	—
Bank loans	452.5	457.8	786.1	481.5	1,079.3
Other loans	11.8	22.4	44.3	2.5	52.7
Convertible notes	62.2	64.5	66.9	65.7	68.2
Total	527.8	546.0	897.3	549.7	1,200.2
Secured bank borrowings	453.8	459.1	744.4	481.5	1,062.5
Unsecured bank borrowings	11.8	22.4	86.0	2.5	69.5
Unsecured convertible notes	62.2	64.5	66.9	65.7	68.2
Total	527.8	546.0	897.3	549.7	1,200.2
Carrying amount repayable					
Within one year	171.5	353.5	364.4	366.7	457.0
After one year but within two years	294.1	—	55.6	117.3	268.8
After two years but within five years	—	128.0	410.5	—	474.4
After five years	62.2	64.5	66.9	65.7	—
Less: amount due within one year shown under current liabilities	(171.5)	(353.5)	(364.4)	(366.7)	(457.0)
	356.3	192.5	533.0	183.0	743.2

Our bank and other borrowings and convertible notes as at 31 December 2010, 2011 and 2012 and 30 June 2013 bore a weighted average effective interest of 6.8%, 6.9%, 7.1% and 8.9%, respectively.

Our bank and other borrowings and convertible notes in 2010, 2011 and 2012 and for the six months ended 30 June 2013 were denominated in Renminbi and Hong Kong dollars. As at 31 December 2010, 2011 and 2012 and 30 June 2013, our total outstanding bank and other borrowings and convertible notes amounted to HK$527.8 million, HK$546.0 million, HK$897.3 million and HK$1,200.2 million, respectively. Most of our outstanding bank borrowings were secured by our properties, including land and buildings, investment properties, properties under development and completed properties held for sale, including Future City, Future Mansion and Mei Lai International Centre. We issued convertible notes on 13 November 2007 with an aggregate principal amount of approximately HK$180 million which bear interest at 3% per annum. We expect to continue to enter into borrowing arrangements in the ordinary course of business.

We are subject to certain undertakings and financial covenants under our loan agreements with banks. In addition, certain of our PRC subsidiaries have entered into loan agreements which restrict the distribution of dividends by such subsidiaries until the total principal amount of the relevant loan, accrued interest and related fees have been fully repaid. See "Risk Factors — Risks Relating to Our Business and Our Industry — Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries" and "Description of Other Material Indebtedness."

Capital Commitments

Our contractual commitments as at 31 December 2010, 2011 and 2012 and 30 June 2013 mainly represented our commitments to third party construction companies with respect to the construction of our projects. The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December			As at 30 June	
	2010	2011	2012	2012	2013
	HK$ in millions				
				(unaudited)	
Contracted but not provided in the consolidated financial statements in respect of properties construction	161.2	104.5	111.7	96.0	344.3
Authorised but not contracted in the consolidated financial statements in respect of prepayment for acquisition of an intangible asset	—	—	239.0	—	241.2
Total	161.2	104.5	350.7	96.0	585.5

Contingent Liabilities

For pre-sales of residential properties under development, we typically provide guarantees to the banks in connection with our customers' mortgage loans to finance their purchase of the residential properties. Our guarantees are released upon the banks receiving the property ownership certificate of the respective properties from the customers as pledges for security to the mortgage loan granted. If any such customer defaults on the mortgage payment during the terms of the respective guarantee, the bank may demand that we repay the outstanding amount of such defaulting customer's mortgage loan and any accrued interest thereon.

As at 31 December 2010 and 30 June 2013, we provided guarantees to banks for loans of HK$392 million and HK$147 million, respectively, in respect of the mortgage loans provided by the banks to purchasers of properties we developed and sold. The guarantees were issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates. During the year ended 31 December 2010 and the six months ended 30 June 2013, we did not encounter any material default on such mortgage loans. As at 31 December 2011 and 2012, we had not provided any such guarantees to banks.

Capital Expenditures

During the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our capital expenditures were primarily related to the acquisition of entities with land use rights, the addition of our investment properties and purchases of property, plant and equipment. The following table sets forth a breakdown of our capital expenditures for the periods indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	HK$ in millions			
Acquisition of entities with land use rights	326.2	—	129.6	—
Addition of investment properties	—	108.8	85.6	30.7
Purchases of property, plant and equipment	17.3	77.4	2.0	—
Total	343.5	186.2	217.2	30.7

Off-balance Sheet Commitments and Arrangements

Except as disclosed in this offering memorandum, we have not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have any interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development or other services with us.

Inter-company Loans

As at 30 June 2013, we had inter-company loans among PRC companies within our Group with an outstanding amount of approximately HK$182.0 million. Pursuant to the General Provisions of Loans (貸款通則) issued by the PBOC in June 1996, inter-company loans without lending through the entrusted banks are prohibited. Under the General Provisions of Loans and relevant judicial interpretation released by the Supreme People's Court of the PRC, any interest received by the lenders of inter-company loans may be forfeited by the relevant government authorities and the lenders may be subject to a fine of no more than five times of such interest. See "Risk Factors — Risks Relating to Our Business and Our Industry — We had inter-company loans among the PRC subsidiaries, which are prohibited under PRC law."

As advised by our PRC legal advisers, King and Wood Mallesons, the risks of such fines being imposed or any other administrative actions against us are relatively low as:

- administrative rules (部門規章) issued by administrative authorities such as the PBOC, can only specify administrative penalties in accordance with existing laws, administrative rules and regulations (行政法規). However, none of existing laws, administrative rules and regulations specifies the detailed penalty of violation of inter-company loan provision. Therefore, our PRC legal advisers, King and Wood Mallesons are of the view that whether the PBOC is a competent authorities to specify detailed penalty of violation of inter-company loan provision is still unclear; and

- the People's Supreme Court has recently, through a series of rulings, confirmed the protection of interest generated from the inter-company loans if the interest rate of such inter-company loan is reasonable. No fine has been imposed and no administrative action has been taken against the lenders in such cases. Although cases do not act as binding precedents in the PRC, such case has indicated the position of the People's Supreme Court on inter-company loans and may be referenced by other courts in the PRC.

Inflation

According to the China Statistical Bureau, China's overall national inflation rate, as represented by the general consumer price index, was approximately 3.3%, 5.4% and 2.6% in 2010, 2011 and 2012, respectively. Deflation could negatively affect our business as it would be a disincentive for prospective property buyers to make a purchase. Historically, we have not been materially affected by any inflation or deflation.

Qualitative and Quantitative Risks

We are exposed to various types of market risks, including foreign exchange risk, interest rate risk, credit risk, liquidity risk and equity price risk in the normal course of our business. We manage and monitor these exposures on a regular basis to ensure appropriate measures are implemented on a timely and effective manner.

Foreign Exchange Rate Risk

We principally operate the property investment, property development, hotel business and property management businesses in the PRC and most of the transactions are settled in Renminbi, while our financial information is presented in Hong Kong dollars. The conversion of Renminbi into Hong Kong dollars is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Our exposure to foreign exchange risk is also due to our Hong Kong dollar denominated debt and our bank deposits in foreign currencies, mainly Hong Kong dollars. As at 30 June 2013, we had Hong Kong dollar denominated debt totalling HK$66.8 million.

Fluctuations in the foreign exchange rate may have an impact on our business, financial condition and results of operations. See "Risk Factors — Risks Relating to the PRC — Governmental control of currency conversion may affect the value of your investment." Our treasury policy is to manage significant currency exposure and minimise currency risk whenever it may have material impact on us.

We currently do not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest Rate Risk

We are subject to market risks due to fluctuations in interest rates. Our net profit is affected by changes in interest rates due to the impact such changes may have on interest income and interest expenses from deposits and other interest-bearing financial assets and liabilities, including bank and other borrowings. In addition, an increase in interest rates would adversely affect our prospective purchasers' willingness and ability to purchase our properties, our ability to service loans that we have guaranteed and our ability to raise and service long-term debt and to finance our developments, any of which could adversely affect our business, financial condition and results of operations.

As at the date of this offering memorandum, our borrowings primarily consist of loans from commercial banks. As at 31 December 2010, 2011 and 2012 and 30 June 2013, our borrowings amounted to HK$465.6 million, HK$481.5 million, HK$830.4 million and HK$1,132.0 million, respectively. We currently do not have any derivative instruments to hedge our interest rate risk.

Borrowings issued at variable rates expose us to cash flow interest rate risk while borrowings issued at fixed rates expose us to fair value interest rate risk. In addition, any increase of benchmark interest rates published by PBOC may result in an increase in our interest costs, as most of our bank borrowings bear floating interest rates linked to PBOC's benchmark interest rates. PBOC published benchmark interest rates applicable to lending of different terms, which directly affect the property mortgage rates offered by commercial banks in China. In addition, any increase in the HIBOR published by the HKAB may also result in an increase in our interest costs as our loan facility with HSBC bears an interest rate linked to HIBOR. See "Risk Factors — Risks Relating to Our Business and Our Industry — Our business, prospects, financial condition and results of operations may be materially and adversely affected if interest rates increase in the future." We cannot assure you that PBOC or HKAB will not raise lending rates in the future or that our business, prospects, financial condition and results of operations will not be adversely affected as a result of these adjustments.

Credit Risk

Our maximum exposure to credit risk which will cause a financial loss to us due to failure to discharge an obligation by the counterparties is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position at the end of each reporting period; and
- the amounts of contingent liabilities in relation to financial guarantee issued by us.

We typically provide guarantees to banks in connection with our customers' mortgage loans to finance their purchase of the properties. If a purchaser defaults on the payment of its mortgage during the term of guarantee, the bank may demand us to repay the outstanding amount of the loan and any accrued interest thereon. Under such circumstances, we are able to forfeit the customer's deposit and re-sell the property to recover any amounts payable by us to the bank. In this regard, we consider that our credit risk is significantly reduced. See "— Contingent Liabilities."

We have concentration of credit risk in respect of bank balances. As at 30 June 2013, approximately 69.7% of our bank balances were deposited at three banks, HSBC, Pudong Development Bank and Bank of China. The credit risk of these liquid funds is limited because the counterparties are state-owned banks located in the PRC or banks with high credit ratings assigned by international credit-rating agencies.

We have no significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers in the PRC.

Liquidity Risk

We have built an appropriate liquidity risk management framework for short-term funding and liquidity management requirements. We manage liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows.

Non-GAAP Financial Measures

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our earnings before the following items, including but not limited to:

- interest income;
- changes in fair value of investment properties;
- income tax expense;
- share-based payments;
- depreciation of property, plant and equipment; and
- finance costs.

EBITDA is not a standard measure under HKFRSs. 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.

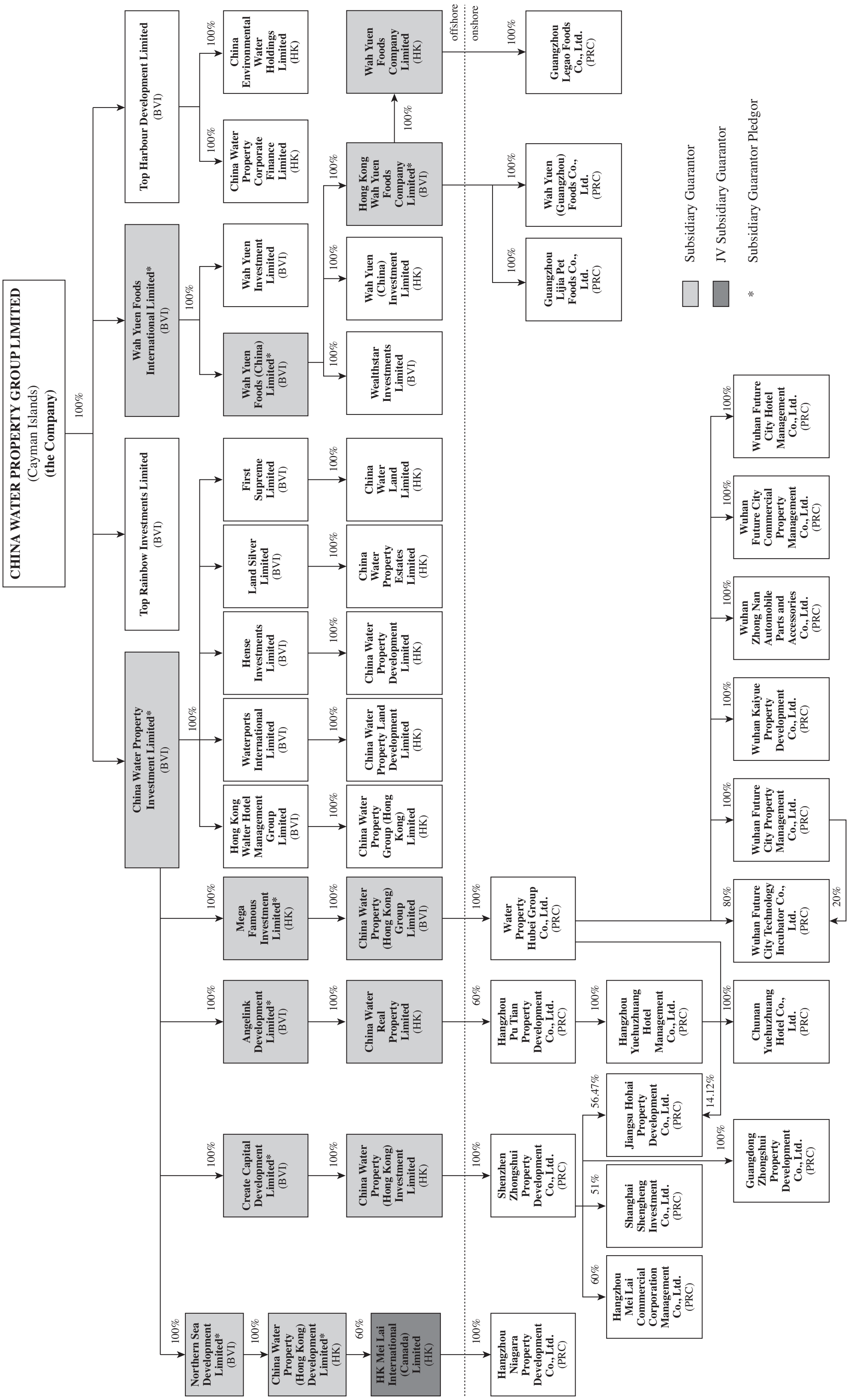
As a measure of our operating performance, we believe that the most directly comparable HKFRSs measure to EBITDA is profit for the year or period. We operate in a capital-intensive industry. We use EBITDA in addition to profit for the year because profit for the year includes many accounting items associated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

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

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK$ in millions				
				(Unaudited)	
Revenue	990.8	136.9	271.4	48.8	156.2
Profit for the year/period					
Owners of the Company	510.6	81.0	91.9	20.7	(66.2)
Non-controlling interests	3.5	(4.5)	18.2	(1.7)	18.5
	514.1	76.5	110.1	19.0	(47.7)
Other financial data:					
Interest income	1.6	1.4	0.6	0.5	0.7
Exchange gain	0.1	3.3	—	—	—
Gain/(loss) on disposal of properties, plant and equipment	—	(0.5)	(3.8)	—	—
Write-offs of other receivables	—	(5.7)	(3.6)	—	—
Share based payment	16.1	—	—	—	19.9
Changes in fair value of investment properties	478.3	205.1	282.8	77.8	23.5
Income tax expenses	(265.8)	(53.4)	(87.8)	(22.2)	(24.0)
Depreciation and amortisation	(8.2)	(4.0)	(19.1)	(5.8)	(6.6)
Finance costs	(22.9)	(22.9)	(39.7)	(18.1)	(11.4)
EBITDA	347.1	(46.8)	(19.3)	(13.2)	(10.0)
EBITDA margin (%)	35.0%	(34.2%)	(7.1%)	(27.1%)	(6.4%)

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year or period or as an indicator of operating performance or any other standard measure under HKFRSs. Our definition of EBITDA does not account for such items as interest income, changes in fair value of investment properties, income tax expense, depreciation of property, plant and equipment and finance costs. Our EBITDA measures may not be comparable to similarly titled measures used by other companies. EBITDA margin is calculated by dividing EBITDA by revenue for the relevant period, expressed as a percentage.

The following chart sets out a simplified version of our corporate structure as at the date of this offering memorandum.



Overview

We are an integrated commercial and residential property developer, owner and operator in China. We are engaged in property development, property investment, property management and hotel businesses located primarily in Wuhan, Hangzhou and other first and second tier cities. Our business portfolio comprises development of residential properties, offices and commercial properties. We generally sell our residential and office properties upon completion of development and retain selected commercial properties for lease. Depending on market conditions, we may in certain cases elect to lease back the properties we have sold and operate hotels located on such properties. We also provide property management services to residents of the properties sold by us. By diversifying our business to include property investment, property management and hotel business, we believe we are able to maintain steady growth and secure recurring and stable revenue streams after the completion of our property projects.

As at the date of this offering memorandum, we had seven property projects located in Beijing, Wuhan, Hangzhou and Nanjing. Our flagship project, Future City, located in the central business and commercial area of Hongshan District, Wuhan, Hubei Province, is in close proximity to the Luoyu Road shopping zone and the station of metro line No. 2 and the upcoming station of metro line No. 7. Future City has a total GFA of 145,273 sq.m., and has become a well-recognised commercial development in Wuhan. This project is comprised of five high-rise residential towers, which include a tower used for the operation of a hotel, Future City Shopping Centre and parking spaces. As at the date of this offering memorandum, we have sold nearly all of the residential properties and leased the shopping mall units to international and domestic brands such as McDonald's and Watson's. In addition, we operate an all-suite business hotel located in this project, Wuhan Future City Hotel, which we leased back from the purchasers at the time we sold the residential property.

We also developed another residential and commercial integrated project, Future Mansion in Wuhan, Hubei Province and a low-density lakefront property with detached villas, Qiandao Lake Villa, in Qiandao Lake, Hangzhou, Zhejiang Province. Future Mansion is an integrated residential and commercial building located in the central business and commercial area of Hongshan District, Wuhan, Hubei Province. Future Mansion has a total GFA of approximately 45,381 sq.m. Qiandao Lake Villa is designed to be a low-density lakefront precinct comprising 26 detached luxury villas and a full-facility clubhouse, with each villa offering a lift, garage, swimming pool and backyard. As at the date of this offering memorandum, we have completed construction of Phase I of the Qiandao Lake Villa, which consists of six villas and one clubhouse. In addition, we are developing three other projects, Zhongshui • Longyang Plaza in Wuhan, Hubei Province, Mei Lai International Centre in Hangzhou, Zhejiang Province and Hohai Project in Nanjing, Jiangsu Province. We also hold Qianmen Project in Beijing for development.

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, we generated revenues of approximately HK$990.8 million, HK$136.9 million, HK$271.4 million and HK$156.2 million, respectively, and our property development business accounted for 93.5%, 81.1%, 66.4% and 73.4%, respectively, of our total revenues.

We were incorporated in the Cayman Islands on 9 October 2002, and our shares have been listed on the Hong Kong Stock Exchange (Stock Code: 02349) since 25 June 2003.

Our Competitive Strengths

We believe that the following competitive strengths have contributed to our success and will continue to enable us to capitalise on future growth opportunities and to compete effectively:

We have a business model that balances our short-term capital needs and long-term financial strength.

We are an integrated commercial and residential property developer, owner and operator of strategically-located commercial and residential properties in the PRC. We sell a mix of residential properties, offices and commercial properties to provide cash flow to support our business development and capital growth and strategically retain selected commercial properties for recurring rental income and long-term financial strength. We currently own and manage one shopping centre and parking spaces with a total GFA of 55,362 sq.m. at Future City.

Our property sales provide a healthy cash flow for our business development and capital growth, while our investment properties provide us with recurring rental income and ensure our long-term financial strength. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, we generated revenue of HK$926.7 million, HK$111.0 million, HK$180.1 million and HK$114.6 million, respectively, from property sales and nil, HK$24.5 million, HK$51.3 million and HK$18.4 million, respectively, from property investment. In addition, the fair value of our investment properties had increased substantially, as we had fair value gains on our investment properties of HK$478.3 million, HK$205.1 million, HK$282.8 million and HK$23.5 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. We believe that such fair value gains have enhanced our financial position.

In addition, we believe our hotel business adds value to our brand name in the property market and an integral component of our overall residential property marketing strategy. Our hotel business has also provided us with stable and sustainable cash flow. For the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, we generated revenues of HK$0.8 million, HK$33.0 million and HK$19.5 million, respectively from our hotel business.

We principally focus on and have an expertise in developing quality residential and commercial properties in selected first and second tier cities in China.

We have focused on, and developed an expertise with, the emerging middle to upper middle class cities by developing quality residential and commercial properties in Beijing and other first and second tier cities, including Wuhan and Hangzhou. We are able to take advantage of, and benefit from, a steadily growing middle-income population, increasing household disposable income and high GDP growth rates. As at 30 June 2013, we had seven property development projects, of which we had successfully completed two projects and Phase I of a third project with a total saleable GFA of 138,582 sq.m. in Wuhan and Hangzhou. We had the remaining projects either under planning or under construction, with a total saleable GFA of 145,402 sq.m. as at 30 June 2013. We believe our residential and commercial projects, such as Wuhan Future City, Wuhan Future Mansion and Mei Lai International Centre, enable us to benefit from the growth of these cities, while differentiating and strengthening our brand. Through our strength in these markets, extensive local and regional knowledge and depth of experience, we believe we will be able to continue to meet the growing demands of customers to grow our business.

We have accumulated local and regional expertise and execution capabilities through cautious expansion.

We have selectively focused on certain first and second tier cities in China, which has allowed us to build local and regional expertise and enhanced our execution capabilities in these selected markets. Since our transition to a real estate company, we are committed to a prudent expansion strategy and have strategically paced our development and expansion to better understand our markets and develop local execution capabilities that enable us to develop properties efficiently and effectively, while avoiding or mitigating certain risks such as failure to understand or comply with local policies. In addition, we normally retain certain members of the local management and execution teams after we acquire a local project company, which has further enhanced our knowledge and execution capability in these local markets. We believe our in-depth understanding of local trends and dynamics enables us to deliver high-quality products to meet our customers' needs which leads to stronger brand recognition. Furthermore, our regional focus enables us to establish long-term, mutually beneficial relationships with local and regional governments, which we believe will further enhance our knowledge of these markets, and facilitate our access to high-quality land in the future.

We have strong support from our parent company, China Water Affairs, which has fostered our long-term sustainable development.

As at 30 June 2013, China Water Affairs held approximately 44.7% of our issued shares. We have received strong support from our parent company with respect to corporate governance and financial resources, which has enabled us to consistently build our business and expand our property portfolio. As a utility service provider, China Water Affairs has operations covering 21 cities and counties in various provinces in the PRC. China Water Affairs' long-term local presence, focus on local infrastructure development and strong working relationships with various local governments affords us strong support in our target markets through their extensive understanding of local investment environments, policies and cooperative partners. In addition, China Water Affairs has developed the necessary market profile and substantial negotiating power that could enable us to develop better relationships with local commercial banks. We believe we will continue to benefit from the strong support from China Water Affairs to foster our long-term sustainable development.

We have an efficient management structure, experienced management team and professional workforce.

We believe we have an efficient management structure. Our headquarters in Hong Kong manages the principal functions of our operations, including land acquisitions, project design, human resources, financing planning and raw material procurement. As we expand into local markets in the PRC, we have delegated certain functions such as project management and marketing to our project companies to facilitate project execution, cater to local characteristics, shorten development cycles and quickly respond to changes in local market conditions.

Our sound corporate governance structure and systems are led by our experienced management team. Our senior management team has extensive industry knowledge, management skills and operating experience, and is led by Ms. WANG Wenxia and Mr. REN Qian, whom both have over 20 years of experience in real estate operations and management. We also believe our Company has a workforce that is well trained and motivated. We have adopted broad performance-based share incentive plans, which we believe enables us to retain and motivate our workforce as well as attract new talent to support our growth and expansion.

Our Business Strategies

Our objective is to become a leading property developer principally focusing on first and second tier cities in the PRC. To achieve this, we intend to focus on the following business strategies:

Continue to develop high-quality properties in first and second tier cities in the PRC.

We believe that first and second tier cities, such as Beijing, Wuhan and Hangzhou, present development opportunities that are well suited for our project development business. We believe that our previous experience in, and strategic focus on, such cities will enable us to continue to build our operations and brand. We currently plan to develop our Qianmen Project, which is located in central Beijing, into customised clubhouses. Leveraging our experience in developing such project, we intend to develop other middle-to-high end residential and commercial integrated properties in Beijing. In addition, we believe that our experience, supported by a relative abundance of land supply in certain second-tier cities compared to the first-tier cities, also affords us opportunities to develop high-quality residential and commercial projects, which will allow us to further build our business.

We will continue to expand our property portfolio, primarily focusing on developing quality commercial and residential complexes. We will select locations for such developments with favourable public transportation access. We believe these future property projects will enhance our profitability and strengthen our working capital for additional land acquisitions and development projects. By strategically selecting different cities for our future expansion, we aim to further reduce our exposure to the volatility of any single local real estate market.

Maintain an optimal mix of properties for sale and properties for investment purposes.

We intend to maintain a business model with an optimal mix of properties for sale and properties for investment, and plan to continue our balanced approach in selecting properties for sale and for investment. We will continue to sell a mix of office, residential and luxury and commercial properties to provide cash flow to support our future development and capital growth, while strategically retaining selected shopping malls and other properties located in the central areas of the city for investment and growth of our recurring rental income.

Continue to optimise tenant mix and maximise occupancy and rental income.

As we grow our portfolio of investment properties, we intend to continue to optimise our tenant mix in order to increase our recurring rental income and reduce our operating risks. We aim to adopt a flexible and proactive leasing strategy with existing and potential high quality tenants. To mitigate the impact from the change in consumption pattern resulting from e-commerce, we are in the process of optimising our tenant mix by focusing more on businesses that require a physical, in-store experience and encouraging them to operate shops on our properties. We believe high quality tenants and shops requiring a physical, in-store experience will greatly enhance the value and rental rates of our investment properties by increasing the stability of our tenant base, improving the profile and reputation of our properties, as well as attracting pedestrian traffic flow into our properties. If the appropriate opportunity arises, we may cooperate with experienced shopping mall operators from Hong Kong to operate our shopping malls.

Continue to adhere to our disciplined and systematic land acquisition strategy.

We will constantly seek and assess land acquisition opportunities in selected first and second tier cities through acquisitions and the governmental land auction system. To achieve our land acquisition targets, we have established a centralised system to search for companies with land use rights and properties, as well as other developers which present land acquisition opportunities. We expect to continue monitoring, planning and building our development budget to evaluate potential development sites. We have in the past acquired all our sites through acquisition of equity interests in third parties who hold the land use rights certificate. Going forward, we intend to purchase land through participating in the government tender and land auction process. In addition, we have commenced and may continue utilising a land acquisition model of direct negotiation with local governments to participate in the development of large-scale projects initiated by the government, such as cultural industry areas, which we believe will further secure our access to quality land through the provision of value-added services to local governments. We believe our disciplined and systematic land acquisition strategy will enhance our ability to acquire land more efficiently and at reasonable prices to support our growth.

Recent Developments

Gaoan Dacheng • Changxi Cultural Industry Area

We entered into a letter of intent with the People's Government of Gaoan County, Jiangxi Province in June 2013, pursuant to which we plan to cooperate with the People's Government of Gaoan County to build the Gaoan Dacheng • Changxi Cultural Industry Area, with a total site area of approximately 3.3 million sq.m. This cultural area is expected to comprise residential properties, commercial area, an art school, exhibition halls, a themed-hotel and related facilities. As at the date of this offering memorandum, we are negotiating with the People's Government of Gaoan County on the details of this project.

Qianmen Project

On 22 July 2013, our wholly-owned subsidiary, Shenzhen Zhongshui and Huangcheng Club entered into a joint-venture agreement, pursuant to which, Shenzhen Zhongshui and Huangcheng Club agreed to establish the Joint Venture to operate the Qianmen project, with 70% of the registered capital to be contributed by Shenzhen Zhongshui and the remaining amount to be contributed by Huangcheng Club. We will be allocated 70% of any profit that the Joint Venture generates from this project. On the same date, Shenzhen Zhongshui and Huangcheng Club entered into a lease agreement with Beijing Qianmen, pursuant to which Beijing Qianmen agreed to lease Qianmen Avenue land parcel B14 to the Joint Venture for the development of clubhouses and related property projects for a term of 20 years from 2013 to 2032.

Qianmen Project is located in Qianmen Avenue, Beijing, which is a traditional commercial area situated near Tiananmen Square and Dashilar Street, and is adjacent to several significant political, governmental and administrative facilities. The Qianmen Project occupies a site area of approximately 10,487 sq.m. and has a planned GFA of approximately 38,876 sq.m. for use as clubhouses and related property projects. We have the rights to develop and operate the structures aboveground and the area located on the first floor belowground, which have an aggregate GFA of approximately 17,660 sq.m. We intend to develop separate and customised clubhouses for our customers and sell the use right of such clubs to them. See "— Our Property Projects — Project Held for Development — Qianmen Project 前門項目."

Huadu Project

Upon the discontinuation of our food business in June 2012, Huadu Land was held by us as an investment property. As at 30 June 2013, the fair value of the land was approximately HK$293.8 million.

Huadu Project was intended to be an urban-renewal project to reclaim and redevelop certain existing industrial manufacturing facilities on such industrial land into residential properties. We submitted the application to relevant PRC government to amend the use of the Huadu Land from industrial uses to residential-commercial uses in September 2009, which was approved in principle by relevant PRC government in late 2012. Pursuant to relevant PRC laws and regulations, the Huadu Land would be first retrieved by the PRC government as governmental land and then be granted to third parties through a government-organised tendering and bidding procedure. We will be entitled to 70% of the bidding price as the compensation to the loss of the land use rights as the original land use rights holder.

According to the tendering results published by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 15 September 2013, the Huadu Land was acquired by Guangzhou Greenland, an independent third party of our Company, as the winning bidder, for a consideration of RMB478.0 million. As a result, we expect to receive compensation of approximately RMB334.6 million (before any expense and/or tax deduction) from the local government for the loss of the land use rights of the Huadu Land.

Our Property Projects

Our business primarily comprises property development, property investment, hotel business and property management. As at the date of this offering memorandum, we had seven property projects located in Beijing, Wuhan, Hangzhou and Nanjing. We classify our property projects into three categories, according to their stage of development:

- ***completed properties***, comprising property projects that we have completed, with a certificate of completion issued by the relevant PRC governmental authorities;

- ***properties under development***, comprising property projects for which we have obtained the land use rights certificate issued by the relevant PRC governmental authorities or obtained the exclusive rights to develop, operate and manage the property through lease or cooperation arrangements with the land use rights holders and commenced construction but a certificate of completion has not been obtained by the land use rights holders or us; and

- ***properties held for development***, comprising properties for which we have obtained the land use rights certificate or obtained the land use rights through lease arrangements with the landlord but for which we have not yet commenced construction.

The following tables set forth an overview of our property projects as at 30 June 2013:

Project	City	Our Equity Interest in the Project	Site Area[6]	Actual/ estimated construction commencement date[1]	Actual/ estimated pre-sale/sale commencement date	Actual/ estimated construction completion date[2]	Percentage of completion[3]	Total GFA/ planned GFA[4]	GFA with construction permits	GFA held for our own use[7]	Non-saleable GFA[5]
			sq.m.	month/year	month/year	month/year		sq.m.	sq.m.	sq.m.	sq.m.
Completed Projects											
Future City	Wuhan	100%	19,191	Apr 2009	Feb 2010	Jul 2011	100%	145,273	145,273	—	192
Future Mansion.	Wuhan	100%	5,852	Oct 2010	Jun 2011	Dec 2012	100%	45,381	45,381	—	1,945
Qiandao Lake Villa[8]	Hangzhou	60%	13,100	May 2006	Sep 2009 (Phase I)	Dec 2010 (Phase I)	100%	6,578	6,578	1,151	—
Subtotal/Average			**38,143**				**100%**	**197,232**	**197,232**	**1,151**	**2,173**
Projects under development											
Zhongshui • Longyang Plaza. . .	Wuhan	100%	30,625	Apr 2013	Dec 2013	Dec 2014	44%	135,173	135,173	—	848
Mei Lai International Centre[8]. .	Hangzhou	60%	16,448	Aug 2010	Dec 2013	Dec 2013	90%	116,222	116,222	—	664
Qiandao Lake Villa[8]	Hangzhou	60%	30,916	May 2006	Mar 2011 (Phase II) Jun 2014 (Phase III)	Dec 2014 (Phase II) Jun 2015 (Phase III)	30%	26,915	26,915	9,398	—
Hohai Project.	Nanjing	100%[10]	5,030[9]	Dec 2012	N/A	Dec 2014	9%	34,759	34,759	—	—
Subtotal/Average			**83,019**				**39%**	**313,069**	**313,069**	**9,398**	**1,512**
Properties held for development											
Qianmen Project	Beijing	70%	10,487[9]	Dec 2013	N/A	Dec 2014	0%	17,660	17,660	—	—
Subtotal/Average			**10,487**				**0%**	**17,660**	**17,660**	**—**	**—**

Project	Saleable GFA														GFA held for investment			
	GFA sold					GFA pre-sold				GFA available for sale								
	Residential	Commercial	Office	Carpark	Total	Residential	Commercial	Office	Total	Residential	Commercial	Office	Carpark	Total	Commercial	Office	Carpark	Total
	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.
Completed properties																		
Future City	89,356	—	—	—	89,356	—	—	—	—	363	—	—	—	363	37,183	—	18,179	55,362
Future Mansion	23,025	—	—	—	23,025	788	3,268	—	4,056	5,141	3,568	—	7,646	16,355	—	—	—	—
Qiandao Lake Villa (Phase I)(8)	1,922	—	—	—	1,922	—	—	—	—	3,505	—	—	—	3,505	—	—	—	—
Subtotal	**114,303**	**—**	**—**	**—**	**114,303**	**788**	**3,268**	**—**	**4,056**	**9,009**	**3,568**	**—**	**7,646**	**20,223**	**37,183**	**—**	**18,179**	**55,362**
Properties under development																		
Zhongshui • Longyang Plaza	—	—	—	—	—	—	—	—	—	—	—	69,973	—	69,973	23,985	—	40,367	64,352
Mei Lai International Centre(8)	—	—	—	—	—	—	—	—	—	—	—	57,912	—	57,912	31,847	—	25,799	57,646
Qiandao Lake Villa (Phase II and III)(8)	—	—	—	—	—	938	—	—	938	16,579	—	—	—	16,579	—	—	—	—
Hohai Project(9)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	31,568	—	3,191	34,759
Subtotal	**—**	**—**	**—**	**—**	**—**	**938**	**—**	**—**	**938**	**16,579**	**—**	**127,885**	**—**	**144,464**	**87,400**	**—**	**69,357**	**156,757**
Properties held for development																		
Qianmen Project(9)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	17,660	—	17,660
Total	**114,303**	**—**	**—**	**—**	**114,303**	**1,726**	**3,268**	**—**	**4,994**	**25,588**	**3,568**	**127,885**	**7,646**	**164,687**	**124,583**	**17,660**	**87,536**	**229,779**

Notes:

(1) The actual construction commencement date refers to the date on which construction commenced on the first building of the project.

(2) The actual construction completion date refers to the date of the proof of examination and acceptance of completion for each property or each phase of a multi-phase project. For properties under development, the estimated construction completion date of a property or phase reflects our best estimate based on our current development plan.

(3) Calculated based on incurred development costs and the total estimated development costs.

(4) "Total GFA" of completed properties represents the GFA provided in surveying reports or the proof of examination and acceptance of completion by the relevant governmental authorities; "Total GFA" of properties under development is based on land surveyor's estimates and/or planning permits.

(5) "Non-saleable GFA" of properties includes the GFA of other ancillary facilities.

(6) The site area assigned to Phases I, II and III of Qiandao Lake Villa is calculated based on their respective planned GFA and the total site area.

(7) "GFA held for our own use" of Qiandao Lake Villa comprises the clubhouse and a total of 30 yacht berths (10 of which have completed as at the date of this offering memorandum).

(8) Information on each project is presented on 100% equity interest basis.

(9) We obtained the exclusive right to develop, operate and manage Hohai Project and Qianmen Project and generate revenues from our operations under cooperative agreements or lease agreement with the relevant land use rights holders.

(10) We held 70.59% of the equity interest in Hohai Project as at the date of this offering memorandum. Jing Yu He (Beijing) Building Construction Company Limited (京豫和(北京)建築裝飾工程有限公司) acquired 29.41% of the equity interest in Jiangsu Hohai Property Development Co., Ltd. (江蘇河海置業有限公司) ("**Jiangsu Hohai**") through a capital injection into Jiangsu Hohai in November 2013.

Our investment property primarily consists of shopping malls. The following table sets forth an overview of our completed investment property as at 30 June 2013:

Project	Total GFA held for investment	Leasable areas as at 30 June 2013	Effective leased area as at 30 June 2013	Occupancy rate as at 30 June 2013(1)	Land certificate expiry date	Completion date	Total rental income for the six months ended 30 June 2013	Effective average rental rate for the six months ended 30 June 2013(2)	Operating lease commitment as at 30 June 2013		
									Within one year	In the second to the fifth year (inclusive)	After the fifth year
	sq.m.	sq.m.	sq.m.	%	month/ year	month/year	HK$ million	HK$/sq.m. per month		HK$ million	
Future City Shopping Centre	55,362(3)	37,183	23,197	62%	Apr 2048	Jul 2011	18.4	132.5	39.1	110.7	24.3

Notes:

(1) Occupancy rate is calculated by dividing the effective leased area (which is the leasable area of a project subject to the relevant lease agreements) by the total leasable area (which is determined by us to be leasable and does not include the public or service areas used in common as a whole or those areas used for ancillary purposes) of the project.

(2) Effective average rental rate is calculated by dividing the rental income of a project by its effective leased area.

(3) Include parking spaces.

The following table sets forth an overview of our investment property under development as at 30 June 2013:

Project	Total planned GFA held for Investment	Land certificate expiry date	Construction commencement date	Expected completion date
	sq.m.	month/year	month/year	month/year
Mei Lai International Centre	57,646[1]	Feb 2060	Aug 2010	Dec 2013

Note:

(1) Include parking spaces.

Details of our property projects as at 30 June 2013 are set out below:

Completed Projects

The following are detailed descriptions of each of our completed projects. The commencement date relating to each project or each phase of a project refers to the date on which construction commenced in respect of the first building of the project or phase and the completion date refers to the date on which the construction completion examination report was obtained for each project or each phase of a multi-phase project.

Future City 未來城

We developed Future City through our wholly-owned subsidiary, Water Property Hubei. Future City is located in the central business and commercial area of Hongshan District, Wuhan, Hubei Province. This property is in close proximity to the Luoyu Road shopping zone and the station of metro line No. 2 and the upcoming station of metro line No. 7. Future City is also located in close proximity to the East Lake, Wuhan University, Wuhan University of Technology and other landmarks in the neighbourhood with approximately 1,000,000 students and residential consumers.

Future City is a large-scale, integrated residential and commercial complex with a total site area of approximately 19,191 sq.m. and a total GFA of approximately 145,273 sq.m. This project is comprised of five high-rise residential towers (including a tower used for the operation of Wuhan Future City Hotel), Future City Shopping Centre and parking spaces.

We commenced construction of this project in April 2009 and completed the construction work in December 2010 and obtained the engineering acceptance certificate in July 2011. We commenced pre-sales of this project in September 2010 and have sold most of the residential properties. We retained a GFA of approximately 55,362 sq.m. of shopping centre and parking spaces for investment, which is now operated by Wuhan Future City Management. See "— Property Investment Business — Future City Shopping Centre."

The following table sets forth details of Future City with respect to total saleable GFA and GFA retained as at 30 June 2013:

	Residential	Commercial	Carpark
Total saleable GFA (sq.m.)	89,719	—	—
— GFA sold (sq.m.)	89,356	—	—
— GFA pre-sold (sq.m.)	—	—	—
— GFA available for sale (sq.m.)	363	—	—
GFA held for investment (sq.m.)	—	37,183	18,179

During the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, we sold approximately 99% of the total saleable GFA of this project. The average selling price of Future City, net of tax, was approximately HK$10,809 per sq.m., HK$11,078 per sq.m., HK$10,870 per sq.m. and HK$12,159 per sq.m., respectively, for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013. We expect to sell the remaining GFA available for sale of this project by December 2013. We entered into lease agreements with all of the purchasers of one tower of Future City simultaneously when we entered into sales agreements with such purchasers, which enabled us to lease back the tower for our operation of Wuhan Future City Hotel for a term of seven years. See "— Hotel Business."

Future Mansion未來公館

We developed Future Mansion through our wholly-owned subsidiary, Wuhan Kaiyue Property Development Co., Ltd. (武漢凱越房地產開發有限公司). Future Mansion is located in the central business and commercial area of Hongshan District, Wuhan, Hubei Province, approximately 600 meters from our Future City project. This property is also in close proximity to the Luoyu Road shopping zone and the station of metro line No. 2 and the upcoming station of metro line No. 7.

Future Mansion is an integrated residential and commercial building with a total site area of approximately 5,852 sq.m. and a total GFA of approximately 45,381 sq.m. We commenced construction of this project in January 2011 and completed construction in December 2012. We commenced pre-sales of this project, including both residential and commercial properties, in November 2011.

The following table sets forth details of Future City with respect to total saleable GFA as at 30 June 2013:

	Residential	Commercial	Carpark
Total saleable GFA (sq.m.)	28,954	6,836	7,646
— GFA sold (sq.m.)	23,025	—	—
— GFA pre-sold (sq.m.)	788	3,268	—
— GFA available for sale (sq.m.)	5,141	3,568	7,646

During the year ended 31 December 2012 and the six months ended 30 June 2013, we sold approximately 62% of the total saleable GFA of this project. The average selling price of Future Mansion, net of tax, was approximately HK$12,969 per sq.m. and HK$11,471 per sq.m., respectively, for the year ended 31 December 2012 and the six months ended 30 June 2013. We expect to sell out most of the remaining GFA available for sale of this project by December 2013.

Qiandao Lake Villa 千島湖墅 (Phase I)

We developed Qiandao Lake Villa through our 60%-owned subsidiary, Hangzhou Pu Tian. We acquired 60% of the equity interest in Hangzhou Pu Tian, the company holding the land use rights for this project, from Jin Cheng Property Group Co., Ltd. (金成房地產集團有限公司), Zhou Qiuyang (周秋羊) and Ni Guoming (倪國明) in April 2010 for a consideration of RMB150 million. We are entitled to 60% of the profit Hangzhou Pu Tian generates from sales of this project. The consideration for the land use rights of this project had been fully paid by Hangzhou Pu Tian before the acquisition.

Qiandao Lake Villa is located on Qiandao Lake, Hangzhou, Zhejiang Province, and enjoys an unobstructed lake view with convenient access to Hangzhou, Shanghai and Huang Mountain by either high-speed railway or expressway.

Qiandao Lake Villa is designed to be a low-density lakefront precinct comprising 26 detached villas featuring luxurious settings complemented by a full-facility clubhouse, with each villa offering of a lift, garage, swimming pool and backyard. Qiandao Lake Villa consists of three phases and has in aggregate a site area of approximately 44,016 sq.m. with a planned GFA of approximately 33,493 sq.m. Qiandao Lake Villa is also equipped with 30 yacht berths. We obtained the construction permit from the Hangzhou Municipal Administration of Ports and Shipping for the construction of 30 yacht berths in September 2011. As at the date of this offering memorandum, we completed construction of ten yacht berths, with the remaining berths under construction.

Phase I of Qiandao Lake Villa consists of six detached villas and a clubhouse with a site area of approximately 13,100 sq.m. and a GFA of approximately 6,578 sq.m. We commenced construction of Phase I in May 2006, and completed construction in December 2010.

The following table sets forth details of Phase I of Qiandao Lake Villa with respect to total saleable GFA and GFA retained as at 30 June 2013:

	Residential	Others[(1)]
Total saleable GFA (sq.m.)	5,427	—
— GFA sold (sq.m.)	1,922	—
— GFA available for sale (sq.m.)	3,505	—
GFA held for our own use (sq.m.)	—	1,151

Note:

(1) Comprise the clubhouse and yacht berths.

Qiandao Lake Villa was awarded the "China Top Ten Luxury Properties With Yacht Berths (Gold Award) 中國十大超級遊艇豪宅金獎" in the seventh China Villa Fair by www.soufun.com and China Villa Index System in October 2010. During the year ended 31 December 2010, we sold two villas, representing approximately 35% of the total saleable GFA of Phase I at the average selling price of approximately HK$40,999 per sq.m., net of tax. As the result of the macro-control on the property market by the PRC government, we decided that it was not the appropriate time to sell the luxury villas in the market and did not sell any villas during the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013. We strategically choose to be more selective of our buyers and market this luxury property to certain clientele. We intend to sell the remaining GFA available for sale of Phase I by June 2014.

We operate three unsold villas of Phase I of Qiandao Lake Villa in conjunction with our Yuehuzhuang Hotel. See "— Hotel Business." We may also employ our "sell and lease back" strategy for our future sales of this project.

Projects Under Development

The following are detailed descriptions of each of our projects under development. The commencement date relating to each project or each phase of a project refers to the date on which construction commenced in respect of the first building of the project or phase and the completion date reflects our best estimate based on our current development plans.

Zhongshui • Longyang Plaza 中水 • 龍陽廣場

We are developing Zhongshui • Longyang Plaza through our wholly-owned subsidiary, Wuhan Zhong Nan. We acquired the entire equity interest in Wuhan Zhong Nan, the company which held the land use rights of this project in January 2011, from Wuhan Hailuo Commercial Investment Management Co. Ltd. (武漢海螺商貿投資管理有限公司) for a consideration of RMB105 million. The consideration for the land use rights of this project was fully paid by Wuhan Zhong Nan before this acquisition.

Zhongshui • Longyang Plaza is located in a prime location between the Wangjiawan business area and national-level Wuhan Economic & Technological Development Zone, Wuhan, Hubei Province. It is located near western Wuhan Middle Ring Road, next to the Hanyang bus terminal and adjacent to Longyang Avenue. This project is located above the Longyang Station of metro line No. 3, which is currently under construction.

Zhongshui • Longyang Plaza is designed as an integrated commercial and office complex with a site area of approximately 30,625 sq.m. and a planned GFA of approximately 135,173 sq.m. We commenced construction of this project in April 2013 and expect it to be completed in December 2014. We expect to commence pre-sales of office buildings of this project in December 2013. We plan to retain and operate the shopping mall, including parking spaces. We entered into a memorandum of understanding with Suguo Supermarket Company Limited, a supermarket chain operator controlled by China Resources Holding Company Limited ("**Suguo Supermarket**"), a supermarket chain operator, in April 2012, pursuant to which Suguo Supermarket plans to lease our commercial properties with a GFA of approximately 17,000 sq.m. for its operation of a large-scale supermarket for a term of 20 years. We agree to design and renovate such area in accordance with the requirements of Suguo Supermarket for its operation of the supermarket.

The following table sets forth details of Zhongshui • Longyang Plaza with respect to the total planned saleable GFA and GFA planned to be retained as at 30 June 2013:

	Office	Commercial	Carpark
Total saleable GFA (sq.m.)	69,973	—	—
— GFA available for sale (sq.m.)	69,973	—	—
GFA held for investment (sq.m.)	—	23,985	40,367

As at 30 June 2013, the total planned GFA available for sale of Zhongshui • Longyang Plaza was approximately 69,973 sq.m., representing approximately 42.5% of the total GFA available for sale and planned GFA available for sale of our Group.

Mei Lai International Centre 美萊國際中心

We are developing Mei Lai International Centre through our 60%-owned subsidiary, Hangzhou Niagara Real Estates Co., Ltd. (杭州尼加拉置業有限公司) ("**Hangzhou Niagara**"). We acquired 60% of the equity interest in Hangzhou Niagara, the company holding the land use rights certificate for this project, from Zheng Tingyu (鄭廷玉), a PRC citizen in May 2010 for a consideration of RMB87 million. We are primarily responsible for the operation of Hangzhou Niagara and we will are entitled to 60% of the profit Hangzhou Niagara generates from property sales and property investment at this project. The consideration for the land use rights of this project had been fully paid by Hangzhou Niagara before this acquisition.

Mei Lai International Centre is located in the new Central Business Centre in Yuhang District, Hangzhou, Zhejiang Province. This project is situated near the southern of intersection of Yingbin Road, Wengmei Road and Nanyuan Street and is in close proximity to the south station of Shanghai-Hangzhou high-speed railway and the station of Hangzhou metro line No. 1.

Mei Lai International Centre is a large-scale integrated office and commercial complex with a site area of approximately 16,448 sq.m. and a planned GFA of approximately 116,222 sq.m. We commenced construction of this project in August 2010, and it is expected to be completed in December 2013. We expect to commence sales of the residential properties and offices buildings for this project in December 2013. We plan to retain and operate the shopping mall with a GFA of approximately 57,646 sq.m. including parking places, through our 60%-owned subsidiary, Hangzhou Mei Lai Commercial Property Management Co., Ltd. (杭州美萊商業企業管理有限公司) ("**Mei Lai Property Management**"). See "— Property Investment Business — Mei Lai International Centre."

The following table sets forth details of Mei Lai International Centre with respect to the total planned saleable GFA and GFA planned to be retained as at 30 June 2013:

	Office	Commercial	Carpark
Total saleable GFA (sq.m.)	57,912	—	—
— GFA available for sale (sq.m.)	57,912	—	—
GFA held for investment (sq.m.)	—	31,847	25,799

As at 30 June 2013, the total planned GFA available for sale of Mei Lai International Centre was approximately 57,912 sq.m., representing approximately 35.2% of the total GFA available for sale and planned GFA available for sales of our Group.

Qiandao Lake Villa 千島湖墅 (Phase II and Phase III)

We commenced construction of the 16 remaining villas in Phase II and Phase III of Qiandao Lake Villa in May 2006, and expect to complete the construction of Phase II and Phase III in December 2014 and June 2015, respectively. We plan to start the pre-sale of Phase II and Phase III of Qiandao Lake Villa in June 2014 and expect to sell most of the GFA available for sale of Phase II and Phase III of Qiandao Lake Villa by December 2015.

The following table sets forth details of Phase II and Phase III of Qiandao Lake Villa with respect to the total planned saleable GFA and GFA planned to be retained as at 30 June 2013:

	Residential	**Others[(1)]**
Total saleable GFA (sq.m.)	17,517	—
— GFA pre-sold (sq.m.)	938	—
— GFA available for sale (sq.m.)	16,579	—
GFA held for our own use (sq.m.)	—	9,398

Note:

(1) Comprises a clubhouse and yacht berths.

We may enter into lease arrangements with purchasers of Phase II and Phase III of Qiandao Lake Villa project and operate the leased villas as part of the Yuehunzhuang Hotel operation.

Hohai Project 河海項目

We entered into a cooperative agreement and a supplemental agreement with Hohai University in July 2010 and June 2012, respectively, pursuant to which we have the right to construct and operate a five-star hotel and enjoy all profits generated from the operation for a term of 33 years. This also includes a term of three years for the construction of this project and a term of 30 years for the operation. As the land use rights holder, Hohai University is responsible for the application for necessary permits, licences, certificates and other approvals from the relevant administrative authorities under its own name. In consideration for Hohai University entering into these agreements, we are responsible for the construction of this project at our own cost. We are obligated to transfer this project to Hohai University upon the expiration of the 33-year term.

We are developing the Hohai Project through our subsidiary, Jiangsu Hohai, of which we hold 70.59% of the equity interest. Jing Yu He (Beijing) Building Construction Company Limited (京豫和(北京)建築裝飾工程有限公司) acquired 29.41% of the equity interest in Jiangsu Hohai through a capital injection into Jiangsu Hohai in November 2013. Hohai Project is located in Xikang Road, Gulou District, Nanjing, Jiangsu Province. This project is in close proximity to the main entrance of Hohai University and Jiangsu Provincial Government. Hohai Project is expected to comprise a five-star hotel with international meeting areas and commercial centres. This project is expect to occupy a site area of approximately 5,030 sq.m. with a planned GFA of approximately 34,759 sq.m.

We commenced construction of this project in December 2012, which is expected to be completed in December 2014.

Project Held for Development

Qianmen Project 前門項目

On 22 July 2013, our wholly-owned subsidiary, Shenzhen Zhongshui and Huangcheng Club entered into a joint-venture agreement, pursuant to which, Shenzhen Zhongshui and Huangcheng Club agreed to establish the Joint Venture to operate the Qianmen project, with 70% of the registered capital to be contributed by Shenzhen Zhongshui and the remaining amount to be contributed by Huangcheng Club. We will be allocated 70% of any profit that the Joint Venture generates from this project. On the same date, Shenzhen Zhongshui and Huangcheng Club entered into a lease agreement with Beijing Qianmen, pursuant to which Beijing Qianmen agreed to lease Qianmen Avenue land parcel B14 to the Joint Venture for the development of clubhouses and related property projects for a term of 20 years from 2013 to 2032.

The aggregate investment of the project is expected to be RMB500 million, which includes constructions cost and rent. Under the lease agreement, the Joint Venture is required to maintain construction costs under RMB200 million. The remaining investment amount will be paid to Beijing Qianmen as rental payments for the structures aboveground and the area located on the first floor belowground. The Joint Venture also obtained the use rights of 60 parking spaces located at the second level below ground for free during the lease term. If we have satisfied all terms and conditions contained in the lease agreement, Beijing Qianmen has agreed to extend the lease term for another 20 years, without additional cost.

Qianmen Project is located in Qianmen Avenue, Beijing, which is a traditional commercial area situated near Tiananmen Square and Dashilar Street, and is adjacent to several significant political, governmental and administrative facilities. The Qianmen Project occupies a site area of approximately 10,487 sq.m. and has a planned GFA of approximately 38,876 sq.m. for use as clubhouses and related property projects. We have the rights to develop and operate the structures aboveground and the area located on the first floor belowground, which have an aggregate GFA of approximately 17,660 sq.m. We intend to develop separate and customised clubhouses for our customers and sell the use right of such clubs to them. As at the date of this offering memorandum, we are in the process of establishing the Joint Venture with Huangcheng Club.

We plan to fund our potential development projects with our operating cash flow (including sale proceeds from our existing projects under development and this project), proceeds from the issue of the Notes and, if necessary, bank loans and other means of financing.

Property Development Business

In developing a project, we follow a rigorous process of planning and execution that is systematic in approach while being flexible enough to accommodate new developments in our fast-evolving business and changing regulatory environments of the PRC property market. Although the nature and sequence of specific planning and execution activities will vary among projects, we summarise below the core elements of our project development process.

City and Site Assessment

We believe that city and site selection and evaluation process is one of the most critical stages in property development and is the key to the success of a property development project. In conjunction with our on-going market and design research, we identify and evaluate possible sites for new projects. We assess land parcels for use in possible projects based on, among other indicators, our analysis of their potential returns.

The factors we take into account in our city assessment primarily include, but not limited to:

- geographical size, population, and overall economic development;
- zoning regulations and policies on real estate development, future land availability transportation network development;
- the supply and demand for commercial and residential properties in the local market; and
- the competitive landscape, including the identity, size and development plans of existing and potential competitors, pricing and other indicators of competing projects, and the marketing strategies of competitors and competing projects; and land availability in the foreseeable future.

The factors we take into account in our site assessment primarily include, but not limited to:

- size and location of the parcels;
- transportation access and infrastructure support;
- property market conditions in the vicinity of the site;
- estimated cost, investment and financial return;
- applicable zoning regulations; and
- existing and future surrounding developments.

Land and Project Acquisition

Historically, we acquired all of our land sites in the secondary market through acquisitions of the entire equity interest in third parties who held the land use rights or through joint venture arrangements, which we typically enter into equity joint ventures with third parties who hold land use rights, but who may not have sufficient capital resources or relevant experience to develop the land. Under such joint ventures, we are usually the majority shareholder and manage the project development.

In the future, we may acquire land through the following means:

- purchasing government-granted land from developers who may lack experience in developing properties;
- purchasing projects under development from developers who are less experienced than we are in marketing and sales by way of asset or equity transfers;
- participating in public tenders, auctions and listings for sale; and
- acquiring and developing real estate in conjunction with other developers through joint ventures.

Permits and Certificates

Once we have obtained the development rights to a parcel of land, we are required to pay land grant fees in accordance with relevant laws and regulations. As part of the development process, a number of certificates, permits and licences must be obtained from the PRC government, including:

- a land use rights certificate, which is a transferable certification of the right of a party to use a parcel of land;
- a construction land planning permit, which is a permit authorising a developer to begin the survey, planning and design of a parcel of land;
- a construction works planning permit, which is a certificate indicating government approval for a developer's overall planning and design of the project and allowing a developer to apply for a work commencement permit;
- a work commencement permit, which is a permit required for commencement of construction;
- a pre-sale permit, which is a permit authorising a developer to start the pre-sale of property still under construction; and
- a completion and acceptance certificate, which is a permit authorising a developer to start the transfer of property upon completion.

For further information of regulatory requirements on property developers in the PRC, see "Regulations."

Project Financing

We primarily finance our property developments using our internally generated funds, proceeds from the sale and pre-sale of our properties, bank borrowings, shareholder loans and proceeds through our equity and debt financings. Our financing methods vary from project to project and are subject to certain limitations imposed by PRC regulations and monetary policies.

According to the relevant guidelines issued by the China Banking Regulatory Commission ("**CBRC**"), banks may not provide any lending to any real estate project for which the land use certificate, construction land planning permit, construction works planning permit and work commencement permit have not yet been obtained. Under the Notice on Adjusting the Housing Supply 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) jointly issued by the MOHURD 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%, calculated by dividing the internal funds available by the total project capital required for a project. We typically use internal funds and project loans from PRC banks to finance the construction costs for our property developments. See "Description of Other Material Indebtedness." Additional cash is generated from pre-sales of properties when these properties meet the requirements of pre-sale under the relevant national and local regulations. Such proceeds from pre-sales, together with shareholder contributions and the project loans, are the major sources of funds for the construction of our projects.

Design

We normally start to discuss our designing plans with the relevant local governmental authorities at an early stage of our property development process. With a view to bringing innovative design perspectives to our projects and increasing our profile generally, we typically outsource the design work to third-party architectural and design firms, which, in general, are selected through a bidding process for each of our property projects. We normally take into account their proposed design concepts, reputation, their past cooperation experience with us as well as their fee scales before making a final decision. At the construction stage, our external architects assist our project engineers to provide continuous on-site supervision and project management. Our goal is to ensure that construction progresses according to design and remains on schedule, within budget and at a satisfactory level of quality.

Construction

All of our construction work is outsourced to third-party construction contractors, which are selected through a bidding process. We have established a set of criteria in selecting our construction contractors to ensure that they meet our quality and workmanship standards. We typically take into account their professional qualifications, reputation, track record and references. The winning bidder is selected based on both the quality and price quoted by the bidder.

Upon selection, a general contractor enters into a construction contract with us, which are typically fixed-price contracts that provide for periodic payments during the construction process. The construction contracts typically include terms relating to the construction schedule and construction quality.

Under the terms of most of our construction contracts, construction contractors are responsible for the wages of construction workers and procuring basic construction materials for our property development. These construction contractors also bear the risk of fluctuations in wages and basic construction material prices during the term of the relevant contract. In addition, our contractors are generally responsible for procuring construction materials pursuant to these construction contracts. However, for key construction materials such as steel and cement, we may specify the brands and our preferred suppliers in order to ensure that such materials meet our requirements.

Monitoring and Supervision

Time control. To monitor progress of the construction, our project management department compiles a master plan which sets out the scope and timing of each construction contract throughout the phases from land acquisition, planning, design and invitation to tender, sales, check and final acceptance. The master plan is adjusted in light of any delay reported by the contractors with a view to ensuring the overall project can still be finished on time. We have consistently completed and delivered properties to our customers on or before the deadlines set out in the pre-sales contracts while maintaining the quality of the developments and keeping our construction costs within our budget by strictly complying with our project development procedures.

Quality control. We exercise on-site inspection and supervision on a day-to-day basis to ensure quality of materials and workmanship. The general contractors are required by law to provide us with warranties for any losses we incur as a result of the construction not being completed on schedule or not meeting contractually or statutorily specified quality standards. In addition, we seek to ensure that our projects meet our design specifications. As a result of our efforts, none of our completed property developments has been found to have materially exceeded the amount of GFA originally authorised in the relevant land grant contracts or construction permit or to contain built-up areas that are not in conformity with the plan authorised by the construction permit. In rare cases where our completed properties were found to have minimally exceeded the authorised amount of GFA, we have paid for the margin in due course.

Cost control. For each project, we prepare a master budget which requires approval by our general manager. We have built in a real-time working platform in our system for cost management which gives a detailed analysis of the costs incurred for each project, including comparison with the master budget. We examine the costs incurred monthly and quarterly to ensure that the actual costs incurred conform with the master budget. If the master budget is likely to exceed the initial approved budget, prior approval from senior management must be obtained. Our cost control mechanism in selecting our general contractors is described in "— Construction" above.

Marketing

As at 30 June 2013, we had an internal sales and marketing team comprising six employees. Our sales and marketing team conducts market research, formulates our marketing and pricing strategies, and determines advertising and sales plans for our projects. We typically support our marketing and sales activities through cooperation with external professional marketing and sales service providers.

Our marketing efforts include advertising through newspapers, magazines, brochures, television, radio, internet, signage posters and outdoor billboards, to market our projects. In order to provide our customer more details of our projects, we may also set up on-site reception centres to display model unit of our projects and other detailed information. To promote the sales of our property projects, we may offer our customers with a discount of 1% to 2% on the selling prices.

Our target rental customers group include retail, hospitality, recreation and entertainment service providers and other business entities seeking to lease quality premises in prime locations. We also sell some of our commercial properties if we believe such sales will generate a better return. Our sale of residential properties focuses on quality housing products for mass market home buyers.

Delivery and After-sales Services

We endeavour to deliver property units to customers on a timely basis. We closely monitor the progress of construction of our property projects, and conduct pre-delivery inspections to ensure timely delivery. The time frame for delivery is typically set out in the sale and purchase agreements. Once a property project has passed the requisite inspections and a construction completion examination report has been jointly issued by the relevant parties including the project development company, the project design company, the construction company, the inspection company and the construction supervisory company, it is ready for delivery. Our sales and construction staff will inspect the properties prior to the delivery to ensure quality standards are met. Our customer service staff will then notify our customers to arrange for the delivery. When we deliver the completed properties to customers, we are also required to deliver the building quality guarantee certificate. After the delivery, we will assist our customers in obtaining their individual property ownership certificates by providing all requisite information to the local authorities for registration. The local authorities will then grant individual property ownership certificates for each property unit.

Our customer service department is responsible for managing our after-sales services. Our customers are able to provide their feedback or complaints about our products or services through telephone hotlines, on-site customer service centres or other means. We also provide property management services to our residential properties. See "— Property Management Business."

Property Investment Business

Our investment property primarily comprises property that is leased for rental income and for capital appreciation. Our strategy is to maintain our optimal investment property portfolio as a source of recurring and stable income.

The following is a brief description of our investment properties as at 30 June 2013:

Future City Shopping Centre 未來城購物中心

The Future City Shopping Centre opened in late August 2011, with a total GFA of approximately 55,362 sq.m., including parking spaces. For the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, we recorded rental income from the Future City Shopping Centre of approximately HK$24.5 million, HK$51.3 million and HK$18.4 million, respectively. As at 31 December 2011, 31 December 2012 and 30 June 2013, the fair value of Future City Shopping Centre was HK$1,339.0 million, HK$1,424.7 million and HK$1,360.0 million, respectively. We operated this project through our wholly-owned subsidiary, Wuhan Future City Management until January 2013. After the qualification certificate of Wuhan Future City Management expired in January 2013, we began operating this project through another wholly-owned subsidiary, Wuhan Future City Property Management Company Ltd. (武漢未來城物業管理有限公司) ("**Wuhan Future City Property Management**").

We seek to maintain long-term relationships with our tenants and strive to maintain a good balance in our tenant composition. Our leases are generally for terms of three to eight years and typically require security deposits of two to three months' rent. Rents are typically set based on prevailing market rates. The rents payable by our retail tenants are mostly fixed but occasionally include a turnover component calculated by reference to a pre-determined percentage of our tenant's annual sales turnover ("**Turnover Rental**"), which is usually determined by our tenants and us based on, among others, their leased GFA and reputation. As at 30 June 2013, only two lease agreements of Future City Shopping Centre included the Turnover Rental. We regularly monitor the creditworthiness and payment history of the tenants of our commercial properties. We may elect not to renew the leases of commercial tenants whose creditworthiness is deteriorating or payment history is lagging.

In selecting our tenants, we generally consider factors such as their businesses, the attractiveness of such businesses to the residents or tenants of our properties, competing businesses in the surrounding areas and their reputation. Our tenants primarily comprise retailers and food and beverage restaurants and our major tenants include McDonald's and Watson's.

As at 30 June 2013, our top five tenants of Future City in aggregate occupied an effective leasing area of approximately 7,076 sq.m., representing approximately 19% of the total leasable area of this property. For the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, our top five tenants contributed approximately 20%, 17% and 22% of rental income, respectively.

The table below sets forth the revenue and the effective average annual rental rate in connection with the investment properties of this project for the periods indicated:

	For the years ended 31 December		For the six months ended
	2011	2012	30 June 2013
Revenue from property investment (HK$'000)	24,513	51,343	18,446
Effective average annual rental rate (HK$/sq.m.)	2,144	1,544	1,590

The occupancy rate of Future City Shopping Centre was approximately 90%, 90% and 62% as at 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively. We initiated a tenancy-mix optimisation project in Future City in 2013 by eliminating small-sized tenants that did not perform well and introducing and retaining quality tenants that provide better products and services to the customers. We plan to terminate or decline to renew lease agreements with low-end or unsustainable tenants. As a result, we experienced a decrease in our occupancy rates and the rental income during the six months ended 30 June 2013 and we expect the trend to continue for the rest of the year. However, we expect such optimisation to improve our tenant-mix and attract more consumers which will, in turn, contribute to our long-term growth and enable us to maintain sustainable rental incomes in the future.

Mei Lai International Centre 美萊國際中心

This project is expected to have a total GFA of approximately 57,646 sq.m., including parking spaces, upon the completion of this project by the end of 2013 or at the beginning of 2014. The effective leasable area of this project is expected to be approximately 31,847 sq.m. As at 30 June 2013, the fair value of the commercial part of Mei Lai International Centre was HK$571.3 million. We plan to operate this project through our 60%-owned subsidiary, Mei Lai Property Management.

Hotel Business

Wuhan Future City Hotel 武漢未來城大酒店

We operate Wuhan Future City Hotel through our wholly-owned subsidiary, Future City Hotel Management. We leased the hotel tower from all of the purchasers at the same time when we entered into sales agreements with such purchasers, for our operation of Wuhan Future City Hotel for a term of seven years, which is expected to expire in October 2018. We have the right to extend such lease agreements for an additional term of five years from October 2018 to October 2023.

Wuhan Future City Hotel, with 394 guest rooms and convenient access to East Lake, local universities and government offices, is an all-suite business hotel located in the central business and commercial area of Hongshan District, Wuhan, Hubei Province. The hotel is also equipped with function rooms and conference rooms. We commenced operation of Wuhan Future City Hotel in November 2011. We maintain a team of over 100 hospitality professionals, including our internal management team and contracted workers, to deliver personalised services to our customers.

Attributable to our well-equipped facilities and professional services, Wuhan Future City Hotel was awarded the "Top 10 Most Welcome Boutique Business Hotel 2013" presented by the China Travel and Hotel Management Association (the "**CTHMA**") in June 2013. Wuhan Future City Hotel was also qualified as deputy-chairman enterprise of the CTHMA. The award and qualification was a significant recognition of Wuhan Future City Hotel by both the public as well as hotel and hospitality industry professionals. For the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, the average occupancy rate of Wuhan Future City Hotel was approximately 22%, 65% and 80%, respectively, and the average room rate of Wuhan Future City Hotel was approximately HK$308, HK$353 and HK$344, respectively. During the same periods, we generated revenue of approximately HK$0.8 million, HK$32.7 million and HK$19.2 million, respectively, from the operation of Wuhan Future City Hotel.

Yuehuzhuang Hotel 悅湖莊酒店

As at the date of this offering memorandum, we operated three villas, the clubhouse and the yacht berths of our Qiandao Lake Villa project as a featured hotel through our subsidiary, Chunan Yuehuzhuang under the name "Yuehuzhuang Hotel (悅湖莊酒店)". We commenced trial operation of Yuehuzhuang Hotel in August 2012. We maintain a team of 18 hospitality professionals to deliver personalised services to our customers.

For the year ended 31 December 2012 and the six months ended 30 June 2013, we generated revenue of HK$0.3 million and HK$0.3 million from the operation of Yuehuzhuang Hotel.

We believe Yuehuzhuang Hotel will be able to meet customer demand for high-end featured hotels. We may lease back villas we are going to sell or retain our completed villas to expand our operation of this hotel in the future.

Hohai Project 河海項目

Hohai Project is located in Xikang Road, Gulou District, Nanjing, Jiangsu Province, in close proximity to the main entrance of Hohai University and Jiangsu Provincial Government. We plan to operate this five-star hotel under our own brand name upon completion.

Future Plans

In addition, we established a wholly-owned subsidiary, Hong Kong Walter Hotel Management Group Limited in May 2013, to operate and manage our hotel business in the PRC. We intend to use "Walter (沃爾特)" as our own brand of hotel operation in the future. As at the date of this offering memorandum, we are preparing the registration of relevant trademark for "Walter (沃爾特)" in the PRC.

Property Management Business

We also provide property management services to our residential properties through our wholly-owned subsidiary, Wuhan Future City Property Management. As at 30 June 2013, we had a property management team of 82 staff, including our internal management team. We perform property management functions to complement our property development and investment businesses and currently manage the residential properties of Future City and Future Mansion in Wuhan with an aggregate GFA of approximately 190,654 sq.m. Our property management services typically include rental management, advertising, security, cleaning, repair and maintenance of equipment and facilities and management of parking lots.

Typically, our property management contracts provide the scope and the quality requirements of the services provided by our property management company. We prepare maintenance and renovation plans for the properties and public facilities that we manage. To help the purchasers of our residential properties to attract tenants, we also provide value-added services such as assisting certain licence or qualification applications for potential tenants through our wholly-owned subsidiary, Wuhan Future City Technology Incubator Co., Ltd. (武漢未來城科技孵化器有限責任公司).

We are not permitted by law to assign the management duties in their entirety to third parties. However, we can outsource certain of our responsibilities, such as cleaning and security services, to independent third parties. The property management contracts also provide terms in relation to management fees and payment method. We may not increase management fees without prior consent of a majority of the owners of the residential properties. In addition, under PRC law, property owners have a right to engage or dismiss a property management company with the consent of more than half of the owners who in the aggregate hold more than 50% of the total non-communal area of the building.

For the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, we generated revenue of approximately HK$0.6 million, HK$6.9 million and HK$3.6 million, respectively, from our property management business.

Discontinued Business

Packaged Food and Convenience Frozen Food Products

Our food products segment offered a wide variety of quality snack products in unique Asian flavours under the brand of "Wah Yuen", which has track record of nearly 50 years in Hong Kong, and the brands of "Rocco" and "采楓" in the PRC. We operated three production plants, which are located in Hong Kong and Huadu District of Guangzhou City.

For the years ended 31 December 2011 and 2012, we experienced net loss of approximately HK$48.1 million and HK$43.4 million, respectively, from our food business. As the result of the continued losses of our food business, we discontinued and disposed of the food business in July 2012.

Seabuckthorn Related Health Products

As a manufacturer and provider of seabuckthorn-related health products in the PRC, we used to have our own seabuckthorn cultivation bases in Erdos Plateau, Loess Plateau and seedling bases over a total area of about 340,000 hectares in Beijing, Inner Mongolia Autonomous Region and Shaanxi, Shanxi and Gansu Provinces. However, as the result of decreasing profitability of such business, we discontinued and disposed of the seabuckthorn related health products business in September 2010. We recorded a gain of HK$3.5 million from disposal of the business and a loss of HK$10.8 million from such business segment prior to disposal in 2010.

Intellectual Property Rights

As at 30 June 2013, we did not hold any trademark or domain names for our property development, property investment and hotel and property management businesses. We have not experienced any material issues with respect to the use of our brand name or trademarks, nor have we experienced any infringement by third parties in the past. Although we consider our brand name to be important to our operations, we are not dependent on our brand name or any particular trademark. We are considering the registration of our brand name and other relevant trademarks in the PRC and Hong Kong, as appropriate.

Competition

The PRC real estate industry is highly competitive. There are many property developers undertaking property development projects in the cities that we operate, including local property developers that focus on one or more cities in Beijing, Wuhan and Hangzhou. With respect to our development properties, we compete with a number of other property developers, principally for the acquisition of suitable development sites. The supply of land available for development in the PRC is constrained by a number of factors, including topography and government land development policy.

With respect to our investment properties, we compete with other major property developers to attract residential residents and commercial tenants and to draw customers to the retail outlets, restaurants, and hotels operated by us. We compete for residents and tenants primarily based upon the quality and location of our buildings, our reputation as a building owner and the quality of our support services.

Insurance

We maintain assets insurance policies for some of our properties, the common facilities and the hotel operating areas at our properties. In addition, we carry social insurance for our employees, and our property management subsidiary also maintains property management liability insurance coverage in connection with its business operations. We do not, however, maintain insurance coverage for non-performance of contract during construction and other risks associated with construction and installation works during the construction period. Consistent with what we believe to be customary practice in the property development industry in China, we also do not maintain insurance against personal injuries or property damage that may occur during the construction of our properties, except that we carry accidental insurance (i.e., employer's liability insurance) against personal injuries that may occur to construction workers. As at 30 June 2013, we had not experienced any significant loss or damage to our properties. In addition, we maintain employer's liability insurance covering bodily injury, medical treatment and litigation expenses for our employees.

According to PRC laws, under certain circumstances, the owner or manager of properties under construction may bear civil liability for personal injuries arising out of construction work unless the owner or manager can prove that it is not at fault. We take steps to prevent construction accidents and personal injuries, and as a result, we believe that we will generally be able to demonstrate that we were not at fault as the property owner if a personal injury claim is brought against us.

We believe that we have sufficient insurance coverage in place and that the terms of our insurance policies are in line with industry practice in the PRC. Nonetheless, there are risks that we do not have sufficient insurance coverage for some damage and liabilities that may arise from our business operations. See "Risk Factors — Risks Relating to Our Business and Our Industry — We have limited insurance to cover all potential losses and claims."

Environmental Matters

As a developer of commercial and residential projects in the PRC, we are subject to various environmental laws and regulations set by various PRC government entities. These include regulations on project design and construction, air and noise pollution and discharge of waste and water into the environment.

As required by PRC law, we must, depending on the impact of the project on the environment, submit an environmental impact assessment report, an environmental impact analysis table or environmental impact registration form before the relevant authorities will grant approval for the commencement of construction of the project. We believe that we are in compliance with such requirements in respect of our projects under development and have never received any fines or penalties associated therewith. However, as with all property developers and their properties, we are subject to numerous risks and uncertainties, some of which are beyond our control. See "Risk Factors — Risks Relating to Our Business and Our Industry — We may be subject to liability for environmental violations."

As for planning and design, certain projects are designed in accordance with the national green building standards. As for materials, products with high-quality, energy-saving, low-carbon and environmental-friendly features are purchased at first priority. As for construction, construction technologies that meet environmental standards are adopted to reduce pollution and damage to the environment caused by dust, noise, waste gas and waste water produced in the course of construction.

Facilities

As at 30 June 2013, we leased properties with a total GFA of approximately 4,300 sq.m. as our office facilities, which are located in the PRC and Hong Kong.

Employees

See "Management — Employees and Remuneration Policies."

Qualifications

The table below sets forth the details of the Qualification Certificate for Real Property Development Enterprise (房地產開發企業資質證書) and the Qualification Certificate for Property Management (物業管理企業資質證書) (collectively, the "**Qualification Certificates**") obtained by our PRC subsidiaries for property development:

PRC Subsidiary	Issuance Date	Expiry Date	Classification	Eligibility under applicable PRC rules
Water Property Hubei Group Co., Ltd. (水務地產湖北集團有限公司)	25 October 2011	24 October 2013	Grade II	Undertaking development construction project of which the architectural area is no more than 250,000 sq.m.
Wuhan Kaiyue Property Development Co., Ltd. (武漢凱越房地產開發有限公司)	1 January 2013	16 January 2014	Interim Qualification Certificate (房地產開發企業資質證書)	N/A
Wuhan Zhong Nan Automobile Parts and Accessories Co. Ltd. (武漢市中南汽車配件配套有限責任公司)	1 January 2013	16 January 2014	Interim Qualification Certificate (房地產開發企業資質證書)	N/A

PRC Subsidiary	Issuance Date	Expiry Date	Classification	Eligibility under applicable PRC rules
Hangzhou Pu Tian Property Development Co., Ltd. (杭州普天房地產開發有限公司)	12 July 2012	31 January 2013	Interim Qualification Certificate (房地產開發企業資質證書)	N/A
Wuhan Future City Property Management Company Ltd. (武漢未來城物業管理有限公司)	15 September 2012	N/A	Grade III	Undertaking property management service for (i) residential project of which the construction area is less than 200,000 sq.m. or (ii) non-residential project of which the construction area is less than 50,000 sq.m.
Wuhan Future City Commercial Property Management Company Ltd. (武漢未來城商業物業管理有限公司)	6 January 2012	6 January 2013	Grade III (Interim)	N/A

As advised by our PRC legal advisers, King and Wood Mallesons, the above Qualification Certificates obtained by our PRC subsidiaries are the only qualification certificates required for our property development business and property management business, and are of the appropriate level of classification in respect of both our completed properties and properties under construction, except that the Qualification Certificates of Water Property Hubei, Hangzhou Pu Tian and Wuhan Future City Management expired. We are in the process of renewing such Qualification Certificates. See "Risk Factors — Risks Relating to Our Business and Our Industry — We are in the process of renewing expired qualification certificates for certain property development or management subsidiaries but we may not be able to extend or renew such qualification certificates." As all of our construction work is outsourced to third-party construction companies, it is not necessary for us to obtain the Qualification Certificate of Enterprise in Construction Industry (建築業企業資質證書).

Save as disclosed in this offering memorandum, we have obtained all permits, licences, qualifications and other government authorisations necessary to conduct our business and to use properties in the manner described in this offering memorandum and we are in compliance with the applicable PRC laws and regulations relating to our business operations in all material respects.

Legal Proceedings

We may from time to time be involved in legal proceedings or other disputes in the ordinary course of our business including disputes with our tenants, contractors, customers, service providers and employees, and we have not incurred significant legal costs and expenses in connection with these legal proceedings. We are not aware of any material legal proceedings, claims or disputes currently existing or pending against us that may have a material adverse impact on our business or our results of operations, or are otherwise material in the context of the offering of the Notes or the Guarantees.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing property projects and to finance our working capital requirements, we have entered into loan agreements with various financial institutions. As at 30 June 2013, our total external borrowings was HK$1,200.2 million. We set forth below a summary of the material terms and conditions of these loans and other material indebtedness.

Project Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including Bank of China, Agricultural Bank of China, China Merchants Bank and China Construction Bank for borrowings under the relevant agreements (collectively, the "**Project Loans**"). The Project Loans are for the purpose of financing our construction projects and have terms ranging from 32 months to eight years, which generally correspond to the construction periods of the particular projects. The Project Loans are typically secured by (i) land use rights and properties held by our PRC subsidiary borrowers; or (ii) guarantees provided by our Company before the relevant property ownership certificates are obtained. As at 30 June 2013, our outstanding Project Loans amounted to HK$775.0 million. The Notes will be structurally subordinated to the Project Loans, the Term Loans (as defined below) and any other indebtedness incurred by our PRC subsidiaries.

Interest

The Project Loans generally bear interest at floating rates calculated with reference to the PBOC's benchmark interest rate. Floating interest rates are generally subject to annual, half-year or monthly review by the lending banks. Interest payments are payable either on a monthly or quarterly basis.

Covenants

Under the Project Loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without obtaining the relevant lender's prior written consent or notifying the relevant lender:

- creating encumbrances on their properties or assets, or selling or disposing of significant assets;
- altering the nature or scope of their business operations in any material respect;
- making major changes to their management and corporate structures, such as entering into joint ventures, mergers and acquisitions or reorganisations, amalgamation or split off, or other contracts which would have a significant impact on their operations or financial condition;
- changing the construction plan or budget of the relevant project;
- increasing or reducing their registered capital;
- making other changes to the company's status, such as by liquidation or dissolution;
- using the loans for impermissible purposes;
- transferring a substantial equity interest in the borrower by its shareholder; and
- incurring other indebtedness or granting guarantees or other security interests to third parties that would adversely affect their ability to repay their loans.

Dividend Restriction

Pursuant to a project loan agreement entered into by Water Property Hubei with Bank of China dated 6 June 2012, Water Property Hubei has agreed not to distribute any dividends until the entire principal amount of the Project Loan, accrued interest and related fees have been fully repaid, provided that it may distribute dividends if it has a balance of deposits with the bank sufficient to cover at least two instalments of principal and interest payments. As at 30 June 2013, Water Property Hubei has an outstanding borrowing of approximately HK$218.8 million under the Project Loan. As at the date of this offering memorandum, Water Property Hubei had not made such deposits with the bank, but if any dividends are declared in the future, it will fully comply with the terms of the Project Loan and make the requisite deposits. As at the same date, such deposits, if required, amounted to approximately HK$50.6 million.

Events of Default

The Project Loans include certain customary events of default, such as failure to pay the amount payable on the due date, unauthorised use of loan proceeds, failure to report to the lender the construction progress according to the loan agreement and material breach of the terms of the loan agreement or the regulatory requirements of PRC authorities. Upon the occurrence of an event of default, the lenders may cancel the banking facilities under the Project Loans, demand immediate repayment of the principal amount and accrued interest, enforce the security interests created in respect of the Project Loans and/or exercise other rights as provided in the loan agreements.

Term Loan Agreements

Our PRC subsidiary Wuhan Future City entered into four one-year working capital loan agreements with Bank of China in 2013 (the "**Term Loans**"). The Term Loans are typically either credit loans or loans guaranteed by or secured with a pledge over deposits by certain of our related parties incorporated in the PRC. As at 30 June 2013, the outstanding Term Loans amounted to HK$168.8 million.

Interest

The Term Loans bear interest at floating or fixed rates calculated with reference to the PBOC benchmark interest rate. Interest payments are typically payable quarterly.

Covenants

Under the Term Loans, Wuhan Future City has agreed, among other things, not to take the following actions without notifying or obtaining Bank of China's prior written consent:

- creating encumbrances on their properties or assets, or selling or disposing of significant assets;
- altering the nature or scope of their business operations in any material respect;
- making major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions or reorganisations, amalgamation or split off;
- increasing or reducing their registered capital;
- making other changes to the company's status, such as by liquidation or dissolution;
- transferring substantial equity interest in the borrower by its shareholder; and
- incurring other indebtedness or granting guarantees or other security interests to third parties that would adversely affect their ability to repay their loans.

Dividend Restriction

Pursuant to the Term Loans, Wuhan Future City has also agreed not to distribute any dividends: (i) if the after-tax profit of Wuhan Future City is nil or negative, or not sufficient to compensate for accumulated losses of previous years; and (ii) until the entire principal amount of the Term Loan, accrued interest and related fees have been fully repaid or relevant debt service reserves or interest reserves have been deposited with the bank. We have not obtained any waiver with respect to this restriction under the Term Loans.

Events of Default

The Term Loans contain certain customary events of default, such as failure to pay the amount payable on the due date, unauthorised use of loan proceeds, material deterioration of financial credit or operating ability and material breach of the terms of the loan agreement. Upon the occurrence of an event of default, the lenders may cancel the banking facilities under the Term Loan, demand immediate repayment of the principal amount and accrued interest, enforce the security interests created in respect of the Term Loans and/or exercise other rights as provided in the loan agreements.

Guarantee and Security

Certain of our related parties, which are PRC subsidiaries of our Parent company, have entered into maximum amount pledge agreements with certain PRC banks in connection with certain of the Term Loans pursuant to which these related parties have guaranteed the liabilities of our subsidiary borrowers under these loans.

HIBOR Loan Facility

On 3 October 2012, our Company entered into a HIBOR loan facility agreement with HSBC as lender in connection with a loan facility of up to HK$100.0 million. The borrowings under the loan facility are repayable by 18 monthly instalments commencing one month after drawdown. The loans drawn down under this loan facility agreement bear interest at floating rates calculated with reference to HIBOR, which refers to the rate at which HSBC can acquire deposits in the specified currency in an amount and period comparable to such loan from the Hong Kong interbank market. In anticipation of a potential breach of certain financial covenants in the facility loan agreement, we obtained a waiver for such potential breach from HSBC on 22 August 2013, by which HSBC waived the relevant covenants and agreed to continue to make these loan facilities available to us until the relevant maturity dates. Thereafter, we renewed the loan facility agreement with HSBC on 24 September 2013, which provided us a new facility of up to HK$100.0 million, repayable through eight equal quarterly instalments of HK$12.5 million. Pursuant to this renewed facility agreement, we undertake to maintain certain financial ratios, including, among others, to maintain a tangible net worth of not less than HK$1,350.0 million, an external gearing ratio of not greater than 1.5 times, the ratio of PRC borrowing to total consolidated assets of no more than 0.5 times, and the ratio of total consolidated unpledged assets to total unsecured borrowings of no less than 5 times. In addition, pursuant to the agreement, HSBC holds a charge over our deposit for HK$50.0 million placed with HSBC as security.

We had drawn down HK$66.8 million under this loan facility as at 30 June 2013.

Trust Loan Agreement

Our wholly owned PRC subsidiary, Wuhan Zhong Nan, entered into a trust loan agreement with Kunlun Trust Co., Ltd. ("**Kunlun**") on 10 March 2013, pursuant to which Kunlun provided a two-year term trust loan with a total amount up to RMB300.0 million to Wuhan Zhong Nan for the development of the Wuhan Future City project guaranteed by a PRC financial guarantee company. Interest on the trust loan accrues on the principal drawdown amount from the drawdown date to the repayment date at a fixed rate of 10% per annum. Customary covenants and events of default are included in such trust loan. As at 30 June 2013, Wuhan Zhong Nan has drawn down RMB190.0 million under the trust loan facility.

Convertible Notes

On 13 November 2007, we issued convertible notes, or the 2017 Notes, in an aggregate principal amount of approximately HK$180 million due on 13 November 2017. The 2017 Notes bear interest at the rate of 3% per annum, which is payable semi annually in arrears. The 2017 Notes were issued as part of the consideration for the acquisition of the entire issued share capital of China Environmental Water Holdings Limited. The 2017 Notes are convertible into fully paid ordinary shares with a par value of HK$0.01 each of our Company at an initial conversion price of HK$0.15, subject to adjustment. As at 30 June 2013, the outstanding principal amount of the 2017 Notes was HK$81.6 million and the conversion price then in effect was HK$0.3781.

Conversion

Subject to certain conditions, a holder of the 2017 Notes has the right at any time during the conversion period (from 13 November 2007 up to 4 p.m. on 13 November 2017) to wholly or partially convert the outstanding principal amount of the Notes registered in its name into the shares of our Company, provided that any conversion shall be made in amounts not less than a whole multiple of HK$5 million on each conversion.

Covenants

We are subject to certain undertakings and covenants under the 2017 Notes, which include, among other things:

- keeping sufficient shares free from pre-emptive rights to satisfy the conversion rights under the 2017 Notes;
- maintaining listing on the HKSE;
- maintaining our status as an overseas company registered under the Companies Ordinance; and
- not entering into any deed, agreement, assignment, instrument or other documents whatsoever which may result in a breach of the terms of the 2017 Notes.

Our Directors confirm that there was no breach of the undertakings and covenants under the 2017 Notes as at the date of this offering memorandum.

Events of Default

The 2017 Notes contain certain customary events of default, including:

- a default in paying interest under the 2017 Notes;
- winding up or dissolution of our Company;
- disposal of all or substantially all of our assets;
- an encumbrancer taking possession or a receiver being appointed for the whole or a material part of the assets of our Company; and
- proceedings being initiated against our Company under any applicable bankruptcy, reorganisation or insolvency law.

Customer Guarantees

In line with industry practice, we provide guarantees to mortgagee banks in respect of mortgage loans taken out by purchasers of our properties. Such guarantee obligations typically terminate upon the delivery of the relevant property ownership certificates on the underlying property to the bank. As at 30 June 2013, the aggregate outstanding guaranteed amount was HK$147.0 million.