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本公告並不構成在美國或任何其他司法權區提呈出售建議或招攬購買任何證券的建議，倘未根據任何該等司法權區的證券法辦理登記或未獲批准而於上述地區進行上述建議、招攬或出售即屬違法。未辦理登記手續或未獲豁免相關登記規定前，不得在美國提呈或發售任何證券。凡在美國公開發售任何證券，均須以刊發章程方式進行。該等章程須載有提出有關發售的公司、其管理層及財務報表的詳盡資料。本公司不擬在美國登記任何證券。



**遠洋地產**

**遠洋地產控股有限公司**

**Sino-Ocean Land Holdings Limited**

(根據香港公司條例在香港註冊成立的有限公司)

(股票代碼：03377)

### 擬發行可換股證券

本公司擬進行國際發售可換股證券。可換股證券將由本公司的全資附屬公司作為發行人發行，並將獲本公司根據信託契據的擔保提供不可撤回的次級保證。

就可換股證券而言，本公司建議：(i)可換股證券的初步換股價(可予調整)預期為每股港幣6.85元；(ii)可換股證券預期按每年8%作出分派，每半年分派一次；(iii)本公司預期，倘股份連續30個交易日的交易價超過換股價的182.5%，其將獲授強制轉換可換股證券的權利；(iv)本公司預期將獲授選擇權，在可換股證券發行日期起計五年後按其本金總額的110%選擇贖回可換股證券或當可換股證券至少90%已獲轉換、贖回或購買及註銷時按其本金總額的100%選擇贖回可換股證券。本公司預期建議可換股證券發行可籌得650,000,000美元款項並可選擇調高250,000,000美元。

本公司將即時開始向機構投資者作出推介。就發售而言，本公司將向若干機構投資者提供有關本集團的近期公司及財務資料，包括但不限於風險因素、管理層的討論與分析、新項目及關連方交易的詳情，而上述資料過去並未曾向公眾發佈。有關該等近期資料的摘錄已隨本公告附奉，在向機構投資者提供該等資料的相若時間，亦可於本公司的網站 ([www.sinooceanland.com](http://www.sinooceanland.com)) 查閱。

可換股證券的定價(包括本金總額、發行價及分派率)以及兌換率將透過中銀國際、J.P. Morgan及麥格理進行的入標定價過程而釐定，而中銀國際、J.P. Morgan及麥格理已就可換股證券發行獲委聘為聯席牽頭經辦人及聯席賬簿管理人。待可換股證券的條款定稿後，預期中銀國際、J.P. Morgan及麥格理、本公司與發行人將訂立認購協議，據此，發行人同意發行，而聯席牽頭經辦人同意盡合理努力尋求認購人認購及支付可換股證券的本金總額。本公司擬將可換股證券發行籌得的所得款項用作為新及現有項目(包括建設成本及土地成本)提供資金以及用作一般公司用途。

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## 可換股證券發行

### 緒言

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購人認購及支付可換股證券的本金總額。本公司擬將可換股證券發行籌得的所得款項用作為新及現有項目(包括建設成本及土地成本)提供資金以及用作一般公司用途。

可換股證券及因可換股證券獲轉換而須交付的新股並無亦將不會根據證券法登記，且不得在美國境內提呈、出售或交付，除非根據證券法的登記規定或其豁免則另當別論。因此，可換股證券可發售及銷售予(1)在美國境內根據證券法第144A條規定獲豁免遵守證券法登記規定的合資格機構買家；及(2)符合證券法所頒佈S規例規定的美國境外人士。可換股證券概不會發售予香港公眾人士，且概不會向本公司任何關連人士配售可換股證券。

### **進行可換股證券發行的理由**

本公司為北京領先的房地產發展商，並於中國環渤海地區擁有龐大市場份額，包括於大連及天津，以及中國多個其他主要城市。本公司擁有開發項目及投資物業的多元化組合，並運用其於北京的初始經驗及成功，將業務拓展至中國其他選定高增長的地區，當中包括環渤海區及珠江三角洲區，且同時鞏固其於北京的領先地位。

本公司擬將可換股證券發行籌得的所得款項用作為收購新及現有項目(包括建設成本及土地成本)提供資金以及用作一般公司用途。

### **發行新股的一般授權**

因可換股證券獲轉換而將發行的新股將根據一般授權(據此，本公司董事獲股東授權配發及發行最多達1,127,458,486股股份)而發行。本公司董事於本公告刊發日期前概無根據一般授權行使權力配發及發行任何新股。

## 上市

可換股證券已原則上獲批准在新交所上市。可換股證券獲准在新交所正式上市並不視為發行人、本公司、可換股證券或股份價值的指標。股份在聯交所上市，而本公司將申請因可換股證券獲轉換而將發行的新股在聯交所上市。

## 一般事項

截至本公告刊發日期並無就可換股證券訂立任何具約束力協議，且可換股證券發行可能會或可能不會成事。投資者及股東於買賣本公司證券時務須審慎行事。本公司於認購協議簽署後，將就可換股證券發行作進一步公告。

## 釋義

於本公告內，除文義另有所指外，下列詞彙具備以下涵義：

|           |   |   |
|-----------|---|---|
| 「中銀國際」    | 指 | 中銀國際亞洲有限公司  |
| 「本公司」     | 指 | 遠洋地產控股有限公司，一家在香港註冊成立的有限責任公司，其股份於聯交所主板上市(股份代號：03377) |
| 「關連人士」    | 指 | 具有上市規則賦予該詞的涵義                                       |
| 「可換股證券」   | 指 | 將由發行人所發行及由本公司擔保及轉換為本公司股份的永久次級可換股證券，可於二零一五年贖回        |
| 「可換股證券發行」 | 指 | 擬由發行人所發行之可換股證券                                      |

|               |   |  |
|---------------|---|--|
| 「一般授權」        | 指 | 股東在本公司於二零二零年五月十三日舉行的股東週年大會（「股東週年大會」）上授予本公司董事的一般授權，以配發、發行及買賣不超過在股東週年大會上通過相關普通決議案當日已發行股份總數20%加上在上述決議案通過後本公司所購回的股份數目（最多為相等於在股東週年大會當日已發行股份總數10%）兩者總和的股份，並在股東週年大會上以個別決議案獲批准 |
| 「本集團」         | 指 | 本公司及其附屬公司  |
| 「香港」          | 指 | 中華人民共和國香港特別行政區   |
| 「港幣」          | 指 | 香港法定貨幣   |
| 「發行人」         | 指 | Sino-Ocean Land Capital Finance Limited，一家在英屬處女群島註冊成立的有限公司，為本公司的全資附屬公司   |
| 「發行價」         | 指 | 可換股證券將予出售的本金額  |
| 「J.P. Morgan」 | 指 | J.P. Morgan Securities Ltd.  |
| 「聯席牽頭經辦人」     | 指 | 中銀國際、J.P.Morgan及麥格理  |
| 「上市規則」        | 指 | 香港聯合交易所有限公司證券上市規則（經不時修訂）   |
| 「麥格理」         | 指 | 麥格理資本證券股份有限公司  |
| 「新股」          | 指 | 於轉換可換股證券時將予發行的股份   |
| 「中國」          | 指 | 中華人民共和國，就本公告而言，並不包括香港、中華人民共和國澳門特別行政區及台灣  |
| 「證券法」         | 指 | 美國一九三三年證券法，經不時修訂   |

|        |   |  |
|--------|---|--|
| 「新交所」  | 指 | 新加坡證券交易所   |
| 「股份」   | 指 | 本公司股本中每股面值港幣0.80元的普通股  |
| 「股東」   | 指 | 股份持有人  |
| 「聯交所」  | 指 | 香港聯合交易所有限公司  |
| 「認購協議」 | 指 | 由發行人、本公司、中銀國際、J.P. Morgan及麥格理就可換股證券發行擬進行訂立的協議，據此，發行人同意發行，而聯席牽頭經辦人同意盡合理努力尋求認購人認購及支付可換股證券的本金總額 |
| 「信託契據」 | 指 | 由(其中包括)本公司及發行人將會訂立的信託契據，據此，(其中包括)本公司就可換股證券發行提供不可撤回的次級保證                                      |
| 「美國」   | 指 | 美利堅合眾國   |
| 「美元」   | 指 | 美國法定貨幣   |

承董事局命  
遠洋地產控股有限公司  
公司秘書  
沈培英

香港，二零一零年七月十二日

於本公告刊發日期，本公司董事包括：

執行董事：

李明先生  
王曉光先生  
陳潤福先生

非執行董事：

劉暉女士  
梁岩峰先生  
王曉東先生

獨立非執行董事：

曾慶麟先生  
顧雲昌先生  
韓小京先生  
趙康先生

遠洋地產控股有限公司的經營及財務數據摘錄  
(截至二零一零年七月十二日)



## RISK FACTORS

*Prior to making any investment decision, you should consider carefully all of the information, including the risk factors and uncertainties described below. Our business, financial condition or results of operations could be materially adversely affected by any of these considerations and uncertainties. Additional considerations and uncertainties not presently known to us, or which we currently deem immaterial, may also have an adverse effect on an investment in the Securities and the Shares.*

### ***Risks Relating to our Business***

#### **We are dependent on the performance of the PRC property sector, particularly in Beijing and the Pan-Bohai Rim region.**

We are subject to the conditions of the real estate market in the PRC generally and in Beijing and the Pan-Bohai Rim region in particular. As of April 30, 2010, approximately 80% of our land bank was located in the Pan-Bohai Rim region, including approximately 22% located in Beijing. We expect our business will continue to be heavily affected by the state of the property market in the PRC, particularly in Beijing and the Pan-Bohai Rim region. Any adverse developments in the supply of and demand for property or in property prices in the PRC, particularly in Beijing and the Pan-Bohai Rim region, would have a material adverse effect on our business, financial condition and results of operations.

Demand for private residential properties in the PRC has grown significantly in recent years, but such growth is often coupled with volatility in market conditions and fluctuations in property prices. In addition, demand for properties has been affected and will continue to be affected by the macro economic control measures implemented by the PRC government from time to time. In the past few years, the PRC government has announced a series of measures designed to stabilize the rapid growth of the PRC economy and to stabilize the growth of specific sections, including the property market, to a more sustainable level. Also see “Risk Factors — Risks Relating to Property Development in the PRC — We are subject to regulations implemented by the PRC government, which may adopt further measures intended to curtail the overheating of the property market in China”.

In addition, the future demand for different types of properties is uncertain. If we do not respond to changes in market conditions or customer preferences in a timely manner, our results of operation will be adversely affected. There can be no assurance that our property development and investment activities will continue at past levels or that we will be able to benefit from the future growth, if any, of the property markets in Beijing, or the Pan-Bohai Rim region, or other parts of the PRC.

#### **Increasing competition in the PRC, particularly in the Pan-Bohai Rim region, may adversely affect our business and financial condition.**

In recent years, a large number of property developers have undertaken property development and investment projects in the Pan-Bohai Rim region and elsewhere in the PRC. Our major competitors include large national and regional property developers and overseas developers (including a number of leading Hong Kong property developers), some of which may have better track records and greater financial and other resources than us. In addition, we also compete with small local homebuilders.

The intensity of the competition among property developers in the Pan-Bohai Rim region and elsewhere in the PRC for land, financing, raw materials and skilled management and labor resources may result in increased costs for land acquisition and construction, an oversupply of properties in certain parts of the PRC, including Beijing, a decrease in property prices and delays in the government approval process. An oversupply of properties available for sale could also depress the prices of the commodity properties we sell. Any of the above may adversely affect our business, financial condition and results of operations.

In addition, the property markets in the Pan-Bohai Rim region and elsewhere in the PRC have been rapidly changing. If we cannot respond to changes in market conditions in the Pan-Bohai Rim region or elsewhere or changes in customer preferences more swiftly or effectively than our competitors, our business, results of operations and financial condition could be adversely affected.

**We cannot assure you that we will be successful when expanding into other cities in China.**

We are currently developing projects outside Beijing and are rapidly expanding our operations in other areas of China. Our active penetration into other areas in China may place a strain on our managerial, operational and financial resources and will further contribute to an increase in our financing requirements. Our experience as primarily a residential property developer in Beijing may not be applicable in other regions. We cannot assure you that we will be able to replicate our successful business models and leverage such experience to expand into other parts of China or outside China. When we enter new markets, we may face intense competition from developers with experience or established presence in the geographical areas or segments that we plan to expand into and from other developers with similar expansion plans. There is no assurance that we will be successful in expanding into other areas in China and that our revenue from those projects in other areas in China will grow at the rate we anticipate or at all. For example, we could face considerable reputational and financial risks if our development projects outside Beijing are mismanaged or do not meet the expectations of customers.

**We may not be able to successfully manage our growth.**

We have been rapidly expanding our operations in recent years, including by expanding into new cities and regions. As we continue to grow, we must continue to improve our managerial, technical and operational knowledge and allocation of resources, and to implement an effective management information system. To effectively manage our expanded operations, we need to continue to recruit and train managerial, accounting, internal audit, engineering, technical, sales and other staff to satisfy our development requirements. In order to fund our ongoing operations and our future growth, we need to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, we will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. Accordingly, we will need to further strengthen our internal control and compliance functions to ensure that we are able to comply with our legal and contractual obligations and reduce our operational and compliance risks. We cannot assure you that we will not experience issues such as capital constraints, construction delays, operational difficulties at new operational locations or difficulties in expanding our existing business and operations and training an increasing number of personnel to manage and operate the expanded business. Neither can we assure you that our expansion plans will not adversely affect our existing operations and thereby have a material adverse effect on our business, financial condition, results of operations and future prospects.

**The recent global economic slowdown and financial crisis have negatively impacted, and may continue to negatively impact, our business.**

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

- the economic slowdown and tightened credit have resulted in lower demand for residential and commercial properties and declining property prices;
- the economic slowdown has adversely impacted home owners and potential property purchasers, which may lead to a further decline in the general demand for property products and a further erosion of their selling prices; and
- the tightening of credit has negatively impacted the ability of property developers and potential property purchasers to obtain financings.

Although certain parts of the PRC property market showed signs of recovery in the second half of 2009 and 2010 due in large part to stimulus measures adopted by the PRC government, we cannot assure you that the property market will continue to recover, nor can we predict how long the recent economic slowdown may last and to what extent it may impact us. If the recent economic slowdown and financial crisis continue for a prolonged period or further deteriorate, the demand for our products and our ability to obtain necessary financing for our operations could be materially and adversely affected, which in turn would negatively impact our business, financial condition, results of operations and prospects.

**Our business depends on the availability of an adequate supply of sites.**

We derive our revenue principally from the sale of properties that we have developed. As a result, our revenue is not of a recurring nature but is dependent on our ability to obtain prime sites and complete and sell our developments. We must replenish and increase our land bank in order to maintain the growth of our business. Our ability to identify and acquire suitable sites is subject to a number of factors that are beyond our control. Our business, financial condition and results of operations may be adversely affected if we are unable to obtain substitute land sites for development in the future at prices that allow us to achieve reasonable returns upon sale to our customers.

The PRC government controls substantially all of the land supply in the PRC. As a result, the policies of the PRC government towards land supply will affect our ability to acquire land use rights for the sites we have identified for future developments and our land acquisition costs. In the PRC, land use rights for residential and/or commercial property developments must be sold by public tender, auction or bidding. In addition, the PRC government may also limit the supply of land available for development in the cities in which we have or intend to have, an interest. We cannot assure you that we will be successful in tendering or bidding for sites. In addition, we acquire land via the acquisition of other property development companies and we cannot assure you that we will be able to obtain applicable government approvals for such acquisitions.

The PRC government also regulates the manner in which land can be developed. For example, following announcements by the State Council and other related government bodies in late May 2006 concerning new directives to adjust the structure of the PRC residential housing market, the Ministry of State Land and Resources issued the “Urgent Notice of Further Strengthening the Administration of the Land” (《關於當前進一步從嚴土地管理的緊急通知》) on May 30, 2006 concerning the restriction on overall land supply for high-end residential property developments, including, in particular, the discontinuation of new land supply for villa projects. On December 18, 2006, the Ministry of Land and Resources and NDRC issued the Catalogue of Restricted Use of Land (2006 Version) (《限制用地項目目錄(2006年本)》) and Catalogue of Prohibited Use of Land (2006 Version) (《禁止用地項目目錄(2006年本)》), which restricted the area of a parcel of land granted for low-density and large-size commodity housing (projects with a plot ratio less than 0.1 and GFA more than 144 sq.m. for each set) and prohibited the use of land for villa development. On November 10, 2009, the Ministry of Land and Resources issued the Catalogue of Restricted Use of Land (2006 Version Supplement) (《限制用地項目目錄(2006年本增補本)》), which restricted the area of a parcel of land granted for commodity housing development to seven hectares in small cities (towns), 14 hectares in medium size cities and 20 hectares in large cities. In March 2010, the Ministry of Land and Resources published the Notice on Increasing the Supply of Land for Real Estate Development and the Tightening of Regulation (《關於加強房地產供應和監管有關問題的通知》), which reiterated the policies that prohibit provision of land for villa construction and restrict land supply for high-end residential property development.

On September 28, 2007, the Ministry of Land and Resources promulgated the Regulation on the Grant of State-owned Land Use Rights for Construction through Competitive Bidding, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》), effective November 1, 2007. This regulation provides, among other things, that property developers must pay the relevant land premiums in full according to the provisions of the relevant land grant contract for the entire parcel under the land grant contract before they can apply for land registration and obtain a land use rights certificate. As a result, property developers are not allowed to bid for a large piece of land, make partial payment, and then apply for land registration and a land use rights certificate for the

corresponding portion of land in order to commence development, which has been the practice in many Chinese cities. On November 18, 2009, the Ministry of Finance, the Ministry of Land and Resources, The People's Bank of China ("PBOC"), the PRC Ministry of Supervision and the PRC National Audit Office jointly 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 raises the minimum down payment on land premiums to 50% of the total premium and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions. On March 8, 2010, the Ministry of Land and Resources 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》), which sets the minimum land premium at no less than 70% of the benchmark price of the locality where the parcel of land is granted, and the bidding deposit at no less than 20% of the minimum land premium. Additionally, a land grant contract is required to be entered into within 10 working days after the land grant deal is closed, and the down payment of 50% of the land premium is to be paid within one month of signing the land grant contract, with the remaining amount to be paid in full within one year of the date of the land grant contract in accordance with the provisions of such land grant contract. The implementation of the regulations will require property developers to maintain a higher level of working capital. We cannot assure you that our cash flow position, financial condition or business plans will not be materially and adversely affected as a result of the implementation of these requirements.

On April 17, 2010, the State Council issued the Notice on Firmly Preventing Overly Fast Growth of Real Property Prices in Certain Cities (《國務院關於堅決遏制部分城市房價過快上漲的通知》), which states that, apart from adhering to and improving the competitive bidding, auction and listing-for-sale system, the PRC government is considering exploring new land use right granting mechanisms. These new mechanisms may include "comprehensive bid evaluation" (綜合評標), "one-time bidding" (一次競價) and "mutual bidding" (雙向競價). Due to lack of details provided in respect of these new mechanisms, there can be no assurance that these new mechanisms, if adopted in the future, will not materially and adversely affect our ability to obtain land use rights.

If changes in government policy lead to a reduction in land supply, our business, future financial condition and results of operations may be materially and adversely affected.

**Our business may be adversely affected by increases in interest rates.**

We cannot assure you that we will have adequate cash flow to service our financing obligations. We have substantial interest obligations for our borrowings, and, for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our interest expense on total borrowings (including the capitalized portion) was RMB592 million, RMB1,073 million, RMB989 million and RMB612 million, respectively. For the four months ended April 30, 2010, the weighted average effective annual interest rate on our total borrowings was 4.82%. A substantial portion of our borrowings are linked to benchmark lending rates published by the PBOC. The PBOC from time to time adjusts the benchmark lending rates. For example, the PBOC raised the benchmark one-year lending rate six times during 2007 from 6.12% at the beginning of the year to 7.47% as of December 21, 2007. More recently, such benchmark lending rates have been continuously lowered, and the benchmark lending rate for RMB-denominated loans with a one-year term had declined to 5.31% as of April 30, 2010. However, the PBOC may raise the benchmark lending rate again in order to control the growth rate of the Chinese economy or for other policy objectives. Any increases in interest rates on our borrowings, including as a result of interest rate increases by the PBOC, may have a material adverse effect on our financial condition and results of operations.

In addition, increases in interest rates by the PBOC will adversely affect the affordability and attractiveness of mortgage financing to potential purchasers of our properties, which could, in turn, adversely affect our business, financial condition and results of operations.

**We face significant property development risks before we realize any benefit from a development.**

Property developments typically require substantial capital outlay during the construction period and may take months or years before positive cash flows can be generated by pre-sales or sales of completed property developments, if at all. The time and costs required in completing a property development may be subject to substantial increases due to many factors, including shortages of materials, equipment, technical skills and labor, adverse weather conditions, natural disasters, labor disputes, disputes with contractors, accidents, changes in government priorities and policies, changes in market conditions, delays in obtaining the requisite licenses, permits and approvals from the relevant authorities and other unforeseeable problems and circumstances. Any of these factors may lead to delays in, or prevent, the completion of a property development and result in costs substantially exceeding those originally budgeted for. Furthermore, any failure to complete a property development according to its original specifications or schedule may give rise to potential liabilities and, as a result, our return on investments may be lower than originally expected.

In addition, any decreases in property prices or adverse developments in the property market after the acquisition of a parcel of land and prior to pre-sales or sales of completed property developments on such land could also have an adverse impact on our business, financial condition and results of operations. In the first four months of 2010, we acquired a number of parcels of land prior to the introduction of various stringent measures by the PRC government in April 2010 to curtail the overheating of the property market in China. There can be no assurance that we will be able to sell completed properties on such land at selling prices that we anticipated at the time of acquisition of such land parcels.

**We may not be able to obtain adequate funding for our property developments.**

We generally fund our development projects through bank loans, internal cash flows, including proceeds from the pre-sale and sale of our properties, and capital raisings. There is no guarantee that we will always have sufficient funds available to fund all our future property developments.

Our ability to arrange adequate financing for land acquisitions or property developments on terms that will allow us to earn reasonable returns depends on a number of factors, many of which are beyond our control. The PRC government has in recent years taken a number of policy initiatives in the financial sector to further tighten lending requirements for property developers, which, among other things:

- forbid PRC commercial banks from extending loans to property developers to finance land premiums;
- restrict PRC commercial banks from extending loans for the development of luxury residential properties;
- prohibit commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans;
- forbid PRC commercial banks from extending loans to projects falling within the Catalogue of Prohibited Use of Land (《禁止用地項目目錄》);
- restrict, in principle, property development loans provided by commercial banks from being used for projects in areas other than where the commercial bank is located;
- prohibit PRC commercial banks from providing loans to projects in which less than 35% of the project's capital is equity, or where there is a failure to obtain land use rights certificates, construction land planning permits, construction works planning permits and construction permits;

- require PRC commercial banks to be prudent in extending loans (i) to property developers in circumstances where the development and construction of the relevant land has not commenced within one year from the commencement date stipulated in the land grant contract or where the development and construction of the land has commenced but the area in which the development and construction has commenced is less than one-third of the total area to be developed and constructed or the amount invested by the developer is less than 25% of the total amount expected to be invested in the project and (ii) to projects falling within the Catalogue of Restricted Use of Land (《限制用地項目目錄》);
- prohibit commercial banks from extending loans to property developers that hold idle lands for two years or longer and prohibit commercial banks from extending other loans secured by such idle land to the property developers; and
- prohibit commercial banks from providing loans for new development projects to real estate developers who have been found to be leaving their land idle and speculating on land.

In addition, the PBOC increased the reserve requirement ratio for commercial banks several times between 2006 and 2008 to curtail the overheating of the property sector. However, since June 2008, in order to stimulate the PRC economy, the PBOC has decreased the reserve requirement ratio for large-scale commercial banks four times from 17.5% to 15.5% in December 2008. As the PRC economy recovered, the PBOC again increased the reserve requirement ratio in January 2010, February 2010 and May 2010 to 17.0% to curtail potential overheating of the economy. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Increases in the bank reserve requirement ratio may negatively impact the amount of funds available to lend to businesses, including us, by commercial banks in China.

The fiscal and other measures adopted by the PRC government from time to time may limit our flexibility and ability to use bank loans to finance our property developments and therefore may require us to maintain a relatively high level of internally sourced cash. In November 2009, the PRC government raised the minimum downpayment of land premium to 50%. In March 2010, this requirement was further tightened. The PRC government set the minimum land premium at no less than 70% of the benchmark price of the locality where the parcel of land is granted, and the bidding deposit at not less than 20% of the minimum land premium. Additionally, a land grant contract is required to be entered into within ten working days after the land grant deal is closed, and the down payment of 50% of the land premium is to be paid within one month of signing the land grant contract, with the remaining to be paid in full within one year of the date of the land grant contract in accordance with provisions of such land grant contract, subject to limited exceptions. Such change of policy may constrain our cash otherwise available for additional land acquisition and construction. We cannot assure you that we will have adequate resources to fund land acquisitions (including any unpaid land premiums for past acquisitions) or property developments.

We cannot assure you that we will be able to obtain bank loans or renew existing credit facilities granted by financial institutions in the future on reasonable terms or at all or that any fluctuation in the interest rate will not affect our ability to fund our property developments.

**Our level of indebtedness may adversely affect our future strategy and operations.**

As at April 30, 2010, on a consolidated basis, we had approximately RMB28,608 million of total bank and other borrowings, consisting of a non-current portion of approximately RMB22,365 million and a current portion of approximately RMB6,243 million. As at such date, we had approximately RMB23,956 million in shareholders' funds and our net gearing ratio (total bank and other borrowings minus cash and cash equivalents and restricted bank deposits divided by shareholders' funds) was approximately 63%. Our level of indebtedness may adversely affect our future strategy and operations in a number of ways, including:

- our debt service requirements will reduce the funds available to us for other purposes;
- our ability to obtain adequate financing for working capital and capital expenditures for our projects on terms which will enable such projects to achieve a reasonable return to us may be limited; and
- our leverage may hinder our ability to withstand competitive pressures or adjust rapidly, if at all, to changing market conditions.

There can be no assurance that our level of indebtedness and such restrictions will not materially and adversely affect our ability to finance our future operations or capital needs, successfully operate our business, engage in other business activities or pay dividends or distributions.

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

The real estate industry in the PRC is heavily regulated by the PRC government. PRC property developers must comply with various requirements mandated by national and local laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, we must obtain various permits, licences, certificates and other approvals from the relevant administrative authorities at various stages of our property development projects, including land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions. For some of our projects held for future development, we have not yet obtained such permits, licences, certificates and approvals, including in some cases the relevant land use right certificates or qualification certificates for real estate development. For example, Qingdao Yuanhao Property Company Limited (“青島遠豪置業有限公司”), Qingdao Yuanjia Property Company Limited (“青島遠佳置業有限公司”), Dalian Huiyang Property Company Limited (“大連匯洋置業有限公司”), Dalian Hongze Property Company Limited (“大連宏澤置業有限公司”), Dalian Xinrong Property Company Limited (“大連鑫融置業有限公司”) and Dalian Yuanjia Industry Park Company Limited (“大連遠佳產業園開發有限公司”) are now conducting early stage work ahead of construction of their respective real estate development projects and have not yet obtained qualification certificates for real estate development. We cannot assure you that we will not encounter problems in fulfilling the conditions precedent to the receipt of approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the granting of the approvals. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. We may also be subject to periodic delays in our property development projects due to building moratoria in any of the areas in which we operate or plan to operate. If we fail to obtain, or encounter material delays in obtaining, the requisite governmental approvals, the schedule of development and sale of our developments could be substantially disrupted which would materially and adversely affect our business, financial condition and results of operations.

**The PRC government has implemented restrictions on the ability of PRC property developers to obtain offshore financing.**

On July 10, 2007, the State Administration of Foreign Exchange (the “SAFE”) issued the “Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment that Have Properly Registered with the Ministry of Commerce” (《國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》). The notice stipulates, among other things, (i) that the local foreign exchange authorities will no longer process foreign debt registrations or foreign debt applications for the settlement of foreign exchange submitted by real estate enterprises with foreign investment that obtained approval certificates from and registered with the relevant commercial authority on or after June 1, 2007; and

(ii) that the local foreign exchange authorities will no longer process foreign exchange registrations (or any change in such registrations) or applications for settlement and sale of foreign exchange submitted by real estate enterprises with foreign investment that obtained approval certificates from local commerce departments on or after June 1, 2007, but that did not register with the relevant commercial authority. This new regulation effectively prohibits us from injecting funds raised offshore into our PRC project companies by way of shareholder loans. Without having the flexibility to transfer funds to PRC subsidiaries as loans, we cannot assure you that the dividend payments from our PRC subsidiaries will be available on each distribution payment date to pay the distribution due and payable under the Securities.

In addition, equity contributions by us and our non-PRC subsidiaries to our PRC subsidiaries will require approvals from the commerce department of the local government and registration with the MOFCOM, which may take considerable time and delay the actual contribution to the PRC subsidiaries. This may adversely affect the financial condition of the PRC subsidiaries and may cause delays to the development undertaken by such PRC subsidiaries. We cannot assure you that we have obtained or will obtain in a timely manner all relevant necessary approval certificates or registration for all our operating subsidiaries in the PRC to comply with this regulation.

Furthermore, we cannot assure you that the PRC government will not introduce new policies that further restrict our ability to deploy, or that prevent us from deploying, in China, the funds raised outside China. Therefore, we may not be able to use all or any of the capital that we may raise outside China to finance our projects in a timely manner or at all.

**Because we derive our revenues principally from the sale of property, our results of operations may vary significantly from period to period.**

At present, we derive substantially all of our revenues from the sale of residential properties that we have developed, and we only derive a very small portion of our revenues from returns on investment properties such as rental income. Our results of operations may fluctuate in the future due to a combination of factors, including the overall schedules of our property development projects, the level of acceptance of our properties by prospective customers, the timing of the sale of properties that we have developed and any volatility in expenses such as land costs and construction costs.

Furthermore, according to our accounting policy for revenue recognition, we recognize revenue from sale and pre-sale of our properties upon delivery, which normally takes place one to two years after the commencement of pre-sales. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Revenue recognition”. Because the timing of delivery of our properties varies according to our construction timetable, our results of operations may vary significantly from period to period depending on the GFA and timing of delivery of the properties which we sell. Periods in which we deliver more GFA typically generate a higher level of revenue. Periods in which we pre-sell a large aggregate GFA, however, may not generate a correspondingly high level of revenue, if the properties pre-sold are not delivered within the same period. The effect of the timing of project delivery on our operational results is accentuated by the fact that during any particular period of time we can only undertake a limited number of projects due to the substantial capital requirements for land acquisitions and construction costs as well as a limited supply of land.

In addition, seasonal variations have caused fluctuations in our interim revenues and profits, including quarterly and semiannual results. Our operations are primarily focused on northern China, where the climate in winter is not suitable for construction work. We therefore typically seek to complete the construction of, and deliver, most of our properties by November. As a result, we have typically recognized substantially more revenue in the second half of the year than in the first half of the year, and our interim results do not proportionally reflect our annual results.



In light of the above, we believe that period-to-period comparisons of our operating results may not be as meaningful as they would be for a company with a greater proportion of recurring revenues from period to period.

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

Construction costs comprise 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, construction material costs have been the principal driver of the construction costs of our property development projects, with the cost of third party contractors remaining relatively stable. However, as the construction 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 price volatility of construction materials such as steel and cement. In line with industry practice, if there is a significant price fluctuation (depending on the specific terms of each contract), we will be required to renegotiate existing construction contracts to top up payment to, or receive refund from, the contractors, depending on the price movement. Our profit margin is sensitive to changes in the market prices for construction materials and our profit margins will be adversely affected if we are not able to pass all of the increased costs onto our customers.

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

We face risks relating to the pre-sale of properties. For example, we may fail to complete a fully or partially pre-sold property development, in which case we would find ourselves liable to purchasers of pre-sold units for losses suffered by them. We cannot assure you that these losses would not exceed any deposits that may have been made in respect of the pre-sold units. In addition, if a pre-sold property development is not completed on time, the purchaser may be entitled to compensation for late delivery. If the actual GFA of a completed property delivered to a purchaser deviates by more than 3% from the GFA originally indicated in the purchase contract, the purchaser will be entitled to terminate the purchase contract and claim damages. Any termination of the purchase contract as a result of our late delivery of properties will have a material adverse effect on our business, financial condition and results of operations.

On August 5, 2005, the PBOC issued a report entitled “2004 Real Estate Financing Report” in which it recommended that the practice of pre-selling uncompleted properties be discontinued on the grounds that it creates significant market risks and generates transactional irregularities. At the “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’s Congress, including Bai Hexiang, head of the Nanning Central Sub-Branch of the PBOC, put forward a motion to abolish the system for sale of forward delivery housing. In May 2006, Cheng Jiansheng, head of the Real Estate Finance Division of the Financial Market Department of the PBOC, published an article suggesting that the way to perfect the system for commodity housing pre-sale of China is to abolish the financing function of pre-sale. On July 24, 2007, an economy research group under the National Development and Reform Commission (the “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. However, there can be no assurance that the PRC governmental authority will not ban the practice of pre-selling uncompleted properties or implement further restrictions on the pre-sale of properties, such as imposing additional conditions for a pre-sale permit or further restrictions on the use of pre-sale proceeds. Proceeds from the pre-sale of our properties are an important source of financing for our property developments. Consequently, any restriction on our ability to pre-sell our properties, including any increase in the amount of upfront expenditure we must incur prior to

obtaining the pre-sale permit, would extend the time period required for recovery of our capital outlay and would result in our needing to seek alternative means to finance the various stages of our property developments. This, in turn, could have an adverse effect on our business, cash flow, financial condition and results of operations.

**We have experienced periods of net cash outflow from operating activities in the past.**

In the four months ended April 30, 2010, we had net cash used in operating activities in the amount of approximately RMB11,187 million. In 2009, we had net cash used in operating activities in the amount of approximately RMB508 million.

Due to the nature of the property development business, we may from time to time experience net operating cash outflow, when imbalances occur between the timing of our cash inflows relating to the pre-sale of properties and our cash outflows relating to the construction of properties and the purchases of land.

We cannot assure you that we will not experience periods of net operating cash outflow in the future. If we continue to have net operating cash outflow in the future, our financial condition may also be adversely affected.

**Our land use rights may be subject to forfeiture by the PRC government if we fail to comply with the terms of the land grant contracts.**

Under PRC laws and regulations, if a 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, 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 the developer to forfeit the land use rights. Any violation of the land grant terms may also restrict a developer's ability to participate, or prevent it from participating, in future land bidding. Specifically, under current PRC laws and regulations, if we fail to commence development for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice on us and impose an idle land fee on the land of up to 20% of the land premium. If we fail to commence development for more than two years from the commencement date stipulated in the land grant contract, the land use rights are subject to forfeiture to the PRC government unless the delay in development is caused by government actions, force majeure or necessary work to be completed before commencement of the development. Moreover, even if the time of commencement of the land development is in line with the land grant contract, if (i) the developed GFA on the land is less than one-third of the total GFA of the project under the land grant contract or the total capital invested is less than one-fourth of the total estimated investment of the project under the land grant contract; and (ii) the development of the land has been suspended for over one year without government approval, the land will be treated as idle land.

**We are subject to legal and business risks if our project companies fail to obtain or renew their qualification certificates.**

All real estate developers in the PRC must obtain a qualification certificate in order to carry out the business of property development in the PRC. The Provisions on Administration of Qualification Certificates of Real Estate Developers (《房地產開發企業資質管理規定》) (the "Qualification Certificate Provisions") provide that a newly established developer must first apply for a temporary qualification certificate with a one-year term, which can be renewed for a maximum of a two-year period. Thereafter, the developer must apply for a formal qualification certificate under one of the four grades set out in the Qualification Certificate Provisions. All formal qualification certificates are subject to annual inspection. In reviewing an application to issue, grant or renew a qualification

certificate, the relevant government authority considers the real estate developer's registered capital, property development investments, history of property development and quality of property construction, as well as the expertise of the developer's management and whether the developer has any illegal or inappropriate operations.

Property developers in the PRC must also produce a valid qualification certificate when they apply for a pre-sale permit. If any one of our project companies is unable to meet the relevant requirements, and is therefore unable to obtain or renew its qualification certificate, but continues to carry on real estate development, that project company will typically be given a grace period to rectify any insufficiency or non-compliance, subject to a penalty of between RMB50,000 and RMB100,000. Failure to meet the requirements within the specified timeframe could result in the revocation of the qualification certificate and the business license of such project company. However, we cannot assure you that the qualification certificates of any of our project companies will continue to be renewed or that formal qualification certificates will be obtained in a timely manner, or at all, as and when they expire. If our project or project management companies are unable to obtain or renew their qualification certificates, they may not be permitted to continue their businesses, which could materially and adversely affect our business, financial condition and results of operations.

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

Under PRC tax laws and regulations, our properties developed for sale are subject to Land Appreciation Tax which is collectible by the local tax authorities. All income from the sale or transfer of state-owned land use rights, buildings and their ancillary facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined by the relevant tax laws. Pursuant to the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》), LAT shall be exempt for the sale of ordinary standard residences if the appreciation does not exceed 20% of the total deductible items. Deductible items include acquisition cost of land use rights, development cost of land, construction cost of new buildings and facilities or assessed value for used properties and buildings, taxes related to the transfer of real estate and other deductible items as stipulated by the Ministry of Finance. Sales of commercial properties are not eligible for such exemption. Pursuant to the Detailed Rules for the Implementation of Provisional Regulations of the People's Republic of China on Land Appreciation Tax for Property Developers (《中華人民共和國土地增值稅暫行條例實施細則》), an additional 20% of deductible expenses may be deducted in the calculation of the land appreciation amount.

On December 28, 2006, the State Administration of Taxation issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (《關於房地產開發企業土地增值稅清算管理有關問題的通知》), which requires that:

- final settlement of LAT will be conducted on a project-by-project basis. For multi-phase projects, each phase will be required to undergo the LAT clearance and settlement process;
- the appreciated value of ordinary residential properties and non-ordinary residential properties contained within a project shall be calculated separately; and
- property developers must conduct final settlement if one of the following conditions is satisfied:
  - the project is completed and has been sold entirely;
  - the project is transferred as a whole before the completion of the construction; or
  - the land-use rights of the project are transferred.

This notice also stipulates that the PRC tax authorities may require the property developer to conduct final LAT settlement if one of the following conditions is met:

- for completed projects, the area sold exceeds 85% of the total saleable area or, though less than 85%, the rest of the saleable area has already been rented or is being self-used;
- the project has held a sale/pre-sale license for at least three years but has not been sold entirely;
- the taxpayer has applied for tax de-registration but the LAT settlement has not been conducted;  
or
- other situations set forth by the provincial PRC tax authorities.

Local provincial tax authorities can formulate their own implementation rules according to the notice and local situations and there are uncertainties as to how they will enforce this notice.

To further strengthen LAT collection, the State Administration of Taxation released the Rules on the Administration of the Settlement of LAT (《土地增值税清算管理规程》) effective on June 1, 2009, which prescribes the circumstances of the settlement, the materials that are to be filed for settlement, and details relating to the procedures for examination and verification of settlement.

We believe we have made sufficient provisions based on our estimate of the amount of applicable LAT payable in accordance with the requirements set forth in the relevant PRC tax laws and regulations, but we only prepay a portion of such provisions each year as required by the local tax authorities. For the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, we made provisions for LAT in the amount of RMB260 million, RMB420 million, RMB248 million and RMB47 million, respectively. We are not certain as to when the PRC tax authorities will collect the amount of LAT in full (if at all). In the event that the LAT we have provided for is actually collected by the PRC tax authorities, our cash flow and financial position will be affected. Furthermore, in the event that LAT eventually collected by the PRC tax authorities exceeds the amount we have provided for, our net profits after tax will be adversely affected.

**If our contract counterparties fail to comply with our contractual arrangements with them, our business will suffer and our financial condition may be materially and adversely affected.**

We enter into a significant number of contracts in connection with our land acquisitions, including various land grant contracts. Once we enter into a contract in connection with our land acquisitions, we may be required to pay substantial amounts of money, although there may be a period of time before formal title to the land is transferred to us or land use rights certificates are delivered to us. If our contract counterparties fail to comply with our contractual arrangements with them or if the business conditions of our counterparties deteriorate, we may not be able to continue to enjoy our rights under the relevant contractual arrangements and our business will suffer and our financial condition may be materially and adversely affected.

**We rely on external contractors for all of our property construction and are subject to risks relating to the performance of these contractors.**

We do not maintain an in-house construction team. External contractors carry out construction of all of our real estate projects. These contractors are also responsible for procuring all necessary construction equipment and most of the basic construction materials, such as steel and concrete. Completion of our projects is, therefore, subject to the performance of these independent contractors. We cannot ensure that the services rendered by the independent third party contractors will be timely provided or be satisfactory to us or match the targeted quality level we require. If these services are not timely provided or of acceptable quality, we may incur substantial costs to complete the projects and remedy any defects and our reputation could be significantly harmed. We are also exposed to the risk that a contractor may require additional funds in excess of the fixed cost to which they committed

contractually and we may have to bear such additional amounts. In addition, contractors may experience financial or other difficulties (including labor disputes with its employees) that may affect their ability to carry out the work for which they were contracted, thus delaying the completion of our property developments or resulting in additional costs for us. Any of these factors could adversely affect our business, financial condition, results of operations and reputation.

**Our operations may be adversely affected if any member of key management leaves.**

We depend on the services provided by our management and other qualified and experienced staff. Competition for such talented employees is intense in the property development sector in the PRC. In case any core management team member leaves and we fail to find a suitable substitute, our business will be adversely impacted. Moreover, as our business continues to grow and we expand into other regional markets in the PRC, we will need to employ, train and retain employees on a much larger geographical scale. If we cannot attract and retain suitable human resources, our business and prospects will be negatively affected.

**Our results of operations have included fair value gain on investment properties, which are unrealized and our results may fluctuate due to revaluations resulting in further fair value gains or losses on investment properties.**

We reassess the fair value of our investment properties at every reported balance sheet date. Our valuations are based on the market value for which the property could be exchanged between knowledgeable and willing parties in an arm's length transaction. Unrealized capital gains on our investment properties at the relevant balance sheet dates and do not reflect profit generated from the sale or rental of our investment properties. Such fair value gains do not generate any actual cash inflow to us unless and until such investment properties are disposed of at similarly valued amounts. The amount of our fair value gains has been, and may continue to be, significantly affected by the prevailing property markets and may be subject to market fluctuations. Macroeconomic factors, including economic growth rate, interest rate, inflation rate, urbanization rate and disposable income level, in addition to any government regulations, can substantially affect the fair value of our investment properties and affect the supply and demand in the PRC property market. All these factors are beyond our control. There can be no assurance that we will continue to record similar levels of fair value gains or that the fair value of our investment properties will not decrease in the future. In the event that there is a material downward adjustment in our investment properties in the future, our results of operations and profits may be adversely affected.

**Our historic dividends should not be treated as indicative of our future dividend policy.**

Since our IPO, we have declared and paid dividends to equity holders of our Company in the amounts of HK\$0.12 per share, HK\$0.10 per share and HK\$0.09 per share for the years ended December 31, 2007, 2008 and 2009, respectively. The amounts of distributions that we have declared and made in the past are not indicative of the dividends that we may pay in the future.

**Our substantial shareholders may take actions that are not in public shareholders' best interests or which adversely affect our Share price.**

China Life and China Ocean Shipping (Group) Company and its subsidiaries ("COSCO") are our two largest shareholders with 24.07% and 16.85% equity interests, respectively, in our Company as of June 30, 2010. Accordingly, subject to our memorandum of association and our Articles of Association and the Hong Kong Companies Ordinance, China Life and COSCO, by virtue of their significant ownership of our share capital as well as their positions on our Board of Directors (the "Board"), will be able to exercise significant control or exert significant influence over our business or otherwise on matters of significance to us and other shareholders by voting at the general meetings of shareholders or at the Board of Directors' meetings. The interests of China Life and COSCO may differ from the interests of other shareholders and these shareholders are free to exercise their votes according to their interests.

In addition, it is possible that COSCO may dispose of its ownership stake in us in whole or in part, in accordance with government mandates that certain state-owned enterprises such as COSCO to divest themselves of holdings in PRC real estate companies. COSCO has publicly announced that it expects to sell its shareholding in us. Any such sale, or a perception that such a sale may occur, could have an adverse impact on the prevailing market price of our Shares and the Securities.

**Potential liability for environmental problems could result in substantial costs.**

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

We have conducted environmental impact assessments for most of our construction projects. Further, an environmental impact assessment document is required to be submitted to the relevant government authorities for approval before commencement of construction. The local authorities may request us to submit additional environmental impact documents, issue orders to suspend the construction and/or impose penalties for any projects that have not, prior to the commencement of construction, received approval following the submission of the environmental impact assessment documents. We cannot assure that these investigations will reveal all environmental liabilities or their extent, and there may be material environmental liabilities of which we are unaware. In the event that we are subjected to any regulatory action as a result of our failure to carry out such environmental impact assessments fully or at all, our reputation, business, financial condition and results of operations may be adversely affected.

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

Most of our purchasers rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Under PRC law, monthly mortgage payments are limited to 50% of an individual borrower's monthly income. In addition, to curtail the overheating of the property sector, between 2006 and 2008, the PRC government implemented, among other things, regulations that increased the down payment requirement for mortgage loans in respect of residential and commercial properties. Beginning in the second half of 2008, in order to mitigate the impact of the recent global economic slowdown, the PRC government lowered the minimum interest rate for individual mortgage loans to 70% of the corresponding PBOC benchmark bank lending rates. Furthermore, the minimum down payment ratio for residential properties was lowered to 20% for units with a unit floor area of less than 90 sq.m. per unit. However, to curtail the overheating of the PRC property market, the General Office of the State Council on January 7, 2010 issued the "Circular on Facilitating the Stable and Healthy Development of Property Market" (《關於促進房地產市場平穩健康發展的通知》), which provides that, for those who purchase property with a mortgage loan, the down payment for the second property bought with mortgage loans may not be less than 40% of the total purchase price. On April 17, 2010, the State Council issued the "Notice on Resolutely Curbing the Rapid Rising of the House Price in Certain Cities" (《國務院關於堅決遏制部分城市房價過快上漲的通知》) which provides that, for a property that is larger than 90 sq.m., the down payment may not be less than 30% of the purchase price for a first time home buyer; and the down payment for the second property bought with mortgage loans may not be less than 50% of the purchase price and the loan interest rate may not be less than 1.1 times the benchmark lending rate published by the PBOC. In addition, the down payment and interest rate must significantly increase for the third or further properties bought with mortgage loans. In certain

areas where commodity residential property is in short supply and prices rise too quickly, the banks may suspend granting mortgage loans for the third or further properties bought with mortgage loans or to non-residents who cannot provide any proof of tax or social insurance payment for more than one year. On April 30, 2010, the Beijing municipal government issued the Notice on Implementation of State Council's Policies on Resolutely Curbing the Rapid Rising of House Prices in Certain Cities (《北京市人民政府貫徹落實國務院關於堅決遏制部分城市房價過快上漲文件的通知》), which ordered the implementation of the State Council's policies that ban mortgage loans for purchases of the third or further properties and to non-local residents in Beijing who cannot provide any proof of tax or social insurance payment for more than one year. This notice also imposed interim measures limiting each family to buying only one new commodity house in Beijing. If the availability or attractiveness of mortgage financing is reduced or limited, many of our prospective customers may not be able to purchase our properties and, as a result, our business, liquidity and results of operations could be adversely affected.

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

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

Property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within 90 days of delivery of the property or within a timeframe set out in the relevant sale and purchase agreement. Property developers, including us, generally elect to specify the deadline for the delivery of the individual property ownership certificates in the sale and purchase agreements to allow sufficient time for the application and approval processes which typically takes one to two years. Under current regulations, we are required to submit requisite governmental approvals in connection with our property developments, including land use rights documents and planning and construction permits, to the local bureau of land resources and housing administration for the relevant properties and apply for the general property ownership certificate in respect of these properties. We are then required to submit, within regulated periods after delivery of the properties, the relevant property sale and purchase agreements, identification documents of the purchasers and proof of payment of deed tax, together with the general property ownership certificate, for the relevant local authority's review and the issuance of the individual property ownership certificates in respect of the properties purchased by the respective purchasers. Delays by the various administrative authorities in reviewing the application and granting approval as well as other factors may affect timely delivery of the general as well as individual property ownership certificates. We cannot assure you that we will not become liable to purchasers for late delivery of the individual property ownership certificates due to our own fault or for any other reason beyond our control.

**Disputes with joint venture partners may adversely affect our business.**

We carry out some of our business through joint ventures with our PRC or foreign partners. Such joint venture arrangements involve a number of risks, including:

- disputes with joint venture partners in connection with the performance of their obligations under the relevant project or joint venture agreements;
- disputes as to the scope of each party's responsibilities under these arrangements;
- financial difficulties encountered by a joint venture partner affecting its ability to perform its obligations under the joint venture agreements or other contracts with us; or

- conflicts between the policies or objectives adopted by the joint venture partners and those adopted by us.

Any of these and other factors may adversely affect our business, financial condition and results of operations and would divert resources and management's attention.

**We cannot predict the effect on our Share price, or our business, of sales of our Shares by holders of significant numbers of our Shares.**

As of June 30, 2010, China Life owned 24.07% of our Shares and COSCO owned 16.85%. There can be no assurance that such Shareholders will not, at any time or from time to time, sell Shares at prices they determine to be acceptable. In fact, COSCO, one of our significant shareholders, has publicly announced that it expects to sell its shareholding in us. We cannot predict the effect on the market price of our Shares of any of such sales of Shares. We also cannot predict the effect of such sales of Shares on the perception of our Company among our customers or potential customers, or among individuals and entities with whom we engage in business. There can be no assurance that any such sales will not have a material adverse effect on our Share price, or on our business, financial condition or results of operations.

**We must bear resettlement costs associated with our property developments.**

Currently, we do not have any land bank in relation to which we are responsible for the demolition of existing buildings or resettlement of original residents. However, as we expand our business operations, we may engage in primary development, provided that suitable opportunities exist. In such circumstances, it is likely that we will be required to compensate owners and residents of demolished buildings for their relocation and resettlement in accordance with the relevant PRC laws and regulations. In accordance with the City Housing Resettlement Administration Regulations (《城市房屋拆遷管理條例》), where a property developer is responsible for the demolition of existing properties on a site for development and relocation of existing residents, the property developer is required to enter into a written agreement with the owners or residents of existing buildings subject to demolition for development, directly or indirectly through the local government, to provide compensation for their relocation and resettlement. The compensation payable by the property developer is calculated on the basis of the market value of the property, taking into consideration the location, usage and GFA of the building being demolished. However, we cannot assure you that these authorities will not change their formulae for calculating compensation and increase the level of compensation. If they do, land acquisition costs may be subject to substantial increases which could adversely affect our financial condition. In addition, if we or the local government fail to reach an agreement over compensation with the residents, any party may apply to the relevant housing resettlement authorities for a ruling on the amount of compensation, which may delay the development of our projects.

**We do not have insurance to cover potential losses and claims in our operations.**

We do not maintain insurance for destruction of or damage to our property developments business whether they are under development or have been completed and are pending delivery, other than those buildings over which our lending banks have security interests and for which we are required to maintain insurance coverage under the loan agreements. We also do not carry insurance against personal injuries that may occur during the construction of our property developments. In addition, we do not carry insurance for any liability arising from allegedly tortious acts committed on work sites. Although we believe any such liability that may arise would be borne by third party construction companies, we cannot assure you that we will not be sued or held liable for damages due to such tortious acts. Moreover, there are certain losses for which insurance is not available on commercially practicable terms, such as losses suffered due to earthquake, typhoon, flooding, war and civil disorder. If we suffer from any losses, damages and liabilities in the course of our operations and property



development, we may not have sufficient funds to cover any such losses, damages or liabilities or to replace any property development that has been destroyed. In addition, any payment we make to cover any losses, damages or liabilities could have a material adverse effect on our business, results of operations and financial condition.

**We do not conduct independent credit checks when guaranteeing mortgages taken out by our customers. If a significant number of such guarantees are called upon, our financial condition could be adversely affected.**

We enter into arrangements with banks to facilitate the provision of mortgage facilities to purchasers of our properties. In accordance with industry practice, we are required to provide guarantees to these banks in respect of mortgages offered to our customers until the earlier of (i) completion of construction and the relevant property ownership certificates and certificates of other interests in the property are submitted to the relevant banks and (ii) the settlement of mortgage loans between the bank and purchasers of our properties. If a purchaser defaults under the mortgage loan and the bank calls on the guarantee, we are required to repay all debt owed by the purchaser to the mortgagee bank under the loan, the mortgagee bank will assign its rights under the loan and the mortgage to us and we will have full recourse to the property. We have in the past experienced some defaults by our purchasers of their mortgage loans. However, we have been able to recover almost all of the default payments from the relevant property owners shortly after the event of default. During the period from January 1, 2007 to April 30, 2010, we did not experience any material cases of such defaults.

We do not conduct independent credit checks on our customers but rely instead on the credit checks conducted by the mortgagee banks. As at December 31, 2007, 2008 and 2009 and April 30, 2010, our outstanding guarantees over the mortgage loans of our customers amounted to approximately RMB1,732 million, RMB1,544 million, RMB1,812 million and RMB2,145 million, respectively.

If a significant number of purchasers default on their mortgages and our guarantees are called upon, our results of operations and financial condition could be adversely affected to the extent that there is a material depreciation in the value of the relevant properties from the price paid by the purchaser or that we cannot sell such properties due to unfavorable market conditions or other reasons.

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

As investment properties are in general relatively illiquid, our ability to promptly sell them in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. 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 a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a purchaser and to close a sale in respect of an investment property.

Should we decide to sell a property subject to a management agreement or tenancy agreement, we may have to obtain consent from, or pay termination fees to, our management partners or our anchor retail tenants.

In addition, investment properties are not readily convertible to alternative uses if they become unprofitable due to competition, age, decreased demand or other factors. The conversion of investment properties to alternative uses would generally require substantial capital expenditures. In particular, we may be required to expend funds to maintain properties, correct defects, or make improvements before an investment property can be sold. We cannot assure you that we will have funds available for these purposes. These factors and any other factors that would impede our ability to respond to adverse changes in the performance of our investment properties could affect our ability to retain tenants and to compete with other market participants, as well as affecting our results of operations.

## *Risks Relating to Property Development in the PRC*

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

Historically, the PRC property market has been cyclical. The rapid expansion of the property market in certain major provinces and cities in China, in the early 1990s, culminated in an oversupply in the mid-1990s and a corresponding fall in property values and rentals in the second half of the decade. Since the late 1990s, private residential property prices and the number of residential property development projects have gradually increased in major cities as a result of an increase in demand driven by domestic economic growth. In particular, prices of residential properties in certain major PRC provinces have experienced rapid and significant growth. In recent years, however, risk of property oversupply is increasing in parts of China, where property investment, trading and speculation have become overly active. In the event of actual or perceived oversupply, together with the effect of the PRC government policies to curtail the overheating of the property market, property prices may fall significantly and our revenue and results of operations will be adversely affected. We cannot assure you that the problems of oversupply and falling property prices that occurred in the mid-1990s will not recur in the PRC property market and the recurrence of such problems could adversely affect our business and financial condition. The PRC property market is also susceptible to the volatility of the global economic conditions as explained in “— Risks Relating to our Business — The recent global economic slowdown and financial crisis have negatively impacted, and may continue to negatively impact, our business”.

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

**We are subject to regulations implemented by the PRC government, which may adopt further measures intended to curtail the overheating of the property market in China.**

Our business is subject to extensive governmental regulation. As with other PRC property developers, we must comply with various requirements mandated by PRC laws and regulations, including the policies and procedures established by local authorities designed to implement such laws and regulations. In particular, the PRC government exerts considerable direct and indirect influence on the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, foreign exchange, property financing, taxation and foreign investment.

From 2004 to the first half of 2008, in response to concerns over the scale of the increase in property investment and the overheating of the property sector in the PRC, the PRC government introduced policies to restrict development in the property sector, including:

- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low- to medium-cost and small- to medium-size units and low-cost rental properties;
- adopting the “70/90 rule” which requires at least 70% of the total GFA of residential projects approved or constructed on or after June 1, 2006 to consist of units with a GFA of less than 90 sq.m. per unit;
- increasing the minimum amount of down payment from 20% to 30% of the purchase price of property if the property as a primary residence has a GFA of 90 sq.m. or more;
- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment required to obtain a bank loan

- to 50% of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark lending interest rate, and (iv) limiting the terms of such bank loans to no more than 10 years, although commercial banks are allowed flexibility based on their risk assessment;
- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45% of the purchase price of the underlying property, with the other terms similar to those for commercial properties;
  - imposing a business tax levy on the entire sales proceeds from re-sale properties if the holding period is shorter than five years as of June 1, 2006, and ruling that: (i) for the transfer of an ordinary residence five years or more after purchase, the business tax is exempted; and (ii) in the case of a non-ordinary residence, the business tax is to be levied on the difference between the sales proceeds and the original purchase price if the transfer occurs more than five years after the purchase date;
  - imposing a ban on onward transfer of uncompleted properties;
  - limiting the monthly mortgage payment to 50% of an individual borrower's monthly income and limiting all monthly debt payments of an individual borrower to 55% of his or her monthly income;
  - imposing an idle land fee for land which has not been developed for one year starting from the commencement date stipulated in the land grant contract and cancellation of the land use right for land being idle for two years or more;
  - forbidding PRC commercial banks from extending loans: (i) to property developers to finance land premiums; (ii) to property developers that hold idle lands for two years or longer and prohibit commercial banks from extending other loans secured by such idle land to the property developers; (iii) to projects falling within the Catalogue of Prohibited Use of Land or that are not in compliance with planning permits or in which less than 35% of the project's capital is equity, or where there is a failure to obtain land use rights certificates, construction land planning permits, construction works planning permits and construction permits; (iv) for new development projects to real estate developers who have been found to be leaving their land idle and speculating on land; and (v) secured by commodity properties that have been vacant for more than three years;
  - requiring PRC commercial banks to be prudent in extending loans: (i) to property developers in circumstances where the development and construction of the relevant land has not commenced within one year from the commencement date stipulated in the land grant contract or where the development and construction of the land has commenced but the area in which the development and construction has commenced is less than one-third of the total area to be developed and constructed or the amount invested by the developer is less than 25% of the total amount expected to be invested in the project; and (ii) to projects falling within the Catalogue of Restricted Use of Land;
  - imposing sanctions or even revoking business qualifications of developers who are hoarding properties for speculation or in order to drive up property prices;
  - imposing a stop order and cancellation for projects not in compliance with their construction plans; and
  - banning land grants for villa construction and restricting the provision of land for high-end residential property construction.

The PRC government's restrictive regulations and measures to curtail the overheating of the property sector could increase our operating costs in adapting to these regulations and measures, limit our access to capital resources or even restrict our business operations. We cannot be certain that the PRC government will not issue additional and more stringent regulations or measures, which could further slow down property development in China and adversely affect our business, financial condition, results of operations and prospects.

Regional and local governments are responsible for the implementation of the 70/90 rule. We have not seen this policy being stringently applied across all its applicable regions in China. If, for any reason, political, economic, social or otherwise, these regional or local governments begin to stringently

implement this policy, this may lead to an oversupply of units with floor area of less than 90 sq.m., increasing competition in this market segment and affecting the prices and profit margins of such type of property. This may also affect our existing and future business development plans. As a result, our business, financial condition, results of operations and prospects may be adversely affected.

Beginning in the second half of 2008, in order to mitigate the impact of the global economic slowdown, the PRC government has adopted measures to encourage domestic consumption in the residential property market and support property development including reducing the minimum capital funding requirement for real estate development from 35% to 20% for affordable housing projects and ordinary commodity residential property projects and to 30% for other property projects and imposing a new business tax policy ruling that: (i) business tax will be imposed on the full amount of the sale price, upon the transfer of a non-ordinary residential unit by an individual within two years after the purchase date; (ii) for the transfer of a non-ordinary residential unit which has been held by the purchaser for two years or more from the purchase date and a ordinary residential unit which has been held by the purchaser for two years or less from the purchase date, the business tax is to be levied on the difference between the sale price and the purchase price; and (iii) and in the case of an ordinary residential unit, business tax is fully exempted if that transfer occurs after two years from the purchase date.

However, beginning in December 2009, the PRC government began to adjust its policies and introduced new measures in order to enhance the regulation of the property market, restrain property purchases for investment or speculation purposes and keep property prices from rising too quickly in certain regions and cities. These policies include:

- In December 2009, the PRC government adjusted the business tax, so that from January 2010: (i) business tax will be levied on the entire sale proceeds upon the transfer of a non-ordinary residence by an individual within five years, instead of two years, after the purchase date; (ii) for the transfer of a non-ordinary residence five years or more from the purchase date or an ordinary residence within five years of the purchase date, the business tax is to be levied on the difference between the sale income and the purchase prices; and (iii) in the case of an ordinary residence, the business tax is exempted if that transfer occurs more than five years after the purchase date;
- in March 2010, the Ministry of Land and Resources began requiring property developers acquiring land use rights to pay at least 50% of the down payment on land premiums within a month of agreeing to acquire the land use rights;
- in April 2010, the State Council mandated that banks require at least a 50% down payment from second-home purchasers (at mortgage rates of no less than 1.1 times benchmark rates), after it had increased the minimum down payment to 40% in January 2010. The State Council also mandated that banks require a 30% down payment from purchasers of first homes that are larger than 90 square meters;
- in April 2010, the State Council required banks to stop making loans to home buyers who already own two or more properties. The State Council also required banks to stop making loans to non-residents without tax returns or proof of social security contributions in the city of the home purchase;
- in April 2010, the Beijing municipal government imposed interim measures limiting each family to buying only one new commodity house in Beijing; and
- in April 2010, the Ministry of Housing and Urban-Rural Development began prohibiting property developers from receiving any form or disguised form of payment from purchasers which is in the nature of earnest money or a deposit if a pre-sale permit is yet to be received for a commodity housing project.

The level of investment in real property and infrastructure construction in China may level off or decrease as a result of these or other measures, and our sales volume and average selling price could decrease significantly. For more details of the new policies adopted by the PRC government since December 2009, you should refer to the section entitled “Regulation”. We cannot assure you that the PRC government will not adopt more stringent policies, regulations and measures in the future. If we

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

**Property development in the PRC is still at an early stage and lacks adequate infrastructural support.**

Private ownership of property in the PRC is still in a relatively early stage of development. Although demand for private residential property in the PRC has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. We cannot predict how much and when demand will develop, as many social, political, economic, legal and other factors may affect the development of the market. The level of uncertainty is increased by limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

The lack of an effective liquid secondary market for residential property may discourage investors from acquiring new properties because re-sale is not only difficult, but can also be a long and costly process. The limited amount of property mortgage financing available to PRC individuals compounded by the lack of security of legal title and enforceability of property rights may further inhibit demand for residential developments.

In addition, risk of property oversupply is increasing in parts of China, where property investment, trading and speculation have become overly active. In the event of actual or perceived oversupply, property prices may fall significantly and our revenue and results of operations will be adversely affected.

**The non-compliant GFA of some of our completed property developments may be subject to governmental approval and additional payments.**

The local government authorities inspect our property developments after completion and issue completion certificates if the developments are in compliance with the relevant laws and regulations. If the total constructed GFA of a property development exceeds the amount of GFA authorized in the relevant land grant contracts or construction permit, or if the completed property contains built-up areas that are not in conformity with the plan authorized by the construction permit, we may be required to make additional payments or take corrective actions with respect to such non-compliant GFA before the property development may obtain a completion certificate. If we fail to obtain the completion certificate due to such non-compliance, we will not be allowed to deliver the properties or recognize any revenue from the relevant pre-sold properties and may also be subject to liabilities under the pre-sale contracts. Any of the above could have a material adverse effect on our business, financial condition and results of operations.

***Risks Relating to the PRC***

**Economic, political and social conditions in the PRC as well as government policies could affect our business.**

Substantially all of our assets are located in the PRC and substantially all of our revenue is sourced from the PRC. Accordingly, to a significant degree, our results of operations, financial position and prospects are subject to the economic, political and legal developments of the PRC.

The economy of the PRC differs from the economies of most developed countries in many respects, including, but not limited to:

- political structure;
- level of government involvement;

- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While the PRC economy has grown significantly in the past 30 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also negatively affect our operations. For example, our financial condition and results of operations may be adversely affected by the PRC government's control over capital investment or any changes in tax regulations or foreign exchange controls that are applicable to us.

The PRC economy has been transitioning from a planned economy to a market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. However, since early 2004, the PRC government has implemented certain measures in order to prevent the PRC economy, including the property market, from overheating. These measures may cause a decrease in the level of economic activity, including demand for residential and commercial properties, and may have an adverse impact on economic growth in the PRC. If China's economic growth decreases or if the PRC economy experiences a recession, the growth in demand for our products may also decrease and our business, financial condition and results of operations will be adversely affected. See “— Risks Relating to our Business — The recent global economic slowdown and financial crisis have negatively impacted, and may continue to negatively impact, our business”.

In addition, demand for our products and our business, financial condition and results of operations may be adversely affected by:

- political instability or changes in social conditions in 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
- imposition of additional restrictions on currency conversion and remittances abroad.

**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 out of China. We receive substantially all our revenues in Renminbi. Under our current structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations, if any. 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 the PRC State Administration of Foreign Exchange, or the SAFE, by complying with certain procedural requirements. However, approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of indebtedness denominated in foreign currencies, including the Securities. The restrictions on foreign exchange transactions under capital accounts could also affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from us. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to make payments under the Securities.

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

Pursuant to the State Administration of Foreign Exchange's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, or Circular No. 75, issued on October 21, 2005, (i) a PRC resident, including a PRC resident natural person or a PRC company, shall register with the local branch of the SAFE before it establishes or controls an overseas special purpose vehicle for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into a special purpose vehicle, or engages in overseas financing after contributing assets or equity interests into a special purpose vehicle, such PRC resident shall register his or her interest in the special purpose vehicle and the change thereof with the local branch of the SAFE; and (iii) when the special purpose vehicle undergoes a material event outside China, such as change in share capital, merger, investment with long-term stock rights or credits, or a provision of a guarantee to another person, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of the SAFE. Under Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the special purpose vehicle. We cannot assure you that such process will be completed in a timely manner or at all, or that we will not be subject to fines or other sanctions which restrict our cross-border activities or limit our PRC subsidiaries' ability to distribute dividends or to repay shareholder loans to us.

**We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and PRC withholding taxes on distributions we pay on the Securities.**

Under PRC tax laws effective prior to January 1, 2008, dividends, interest and other amounts paid to foreign investors by foreign-invested enterprises, such as amounts paid to us by our operating subsidiaries in China, were exempt from PRC withholding tax. Under the Corporate Income Tax Law (《企业所得税法》) ("CIT Law") and the implementation rules which both took effect on January 1, 2008, enterprises established outside the PRC whose "de facto management bodies" are located in China are considered "resident enterprises" for PRC tax purposes. The implementation rules define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation specified certain criteria for the determination of the "de facto management bodies" for foreign enterprises that are controlled by PRC enterprises. However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises that are not controlled by PRC enterprises (including companies like ourselves).

We hold our shareholders' meetings and board meetings outside China and keep our shareholders' list outside China. However, most of our directors ("Directors") and senior management are currently based inside China and we keep our books of account inside China. The above elements may be relevant for the tax authorities in determining whether we are PRC resident enterprises for tax purposes. However, there is no clear standard published by the tax authorities for making such determination.

Although it is unclear under PRC tax law whether we have a "de facto management body" located in China for PRC tax purposes, we currently take the position that we are not a PRC resident enterprise for tax purposes. We cannot assure you that the tax authorities will agree with our position. If we are deemed to be a PRC resident enterprise for CIT Law purposes, we would be subject to the PRC corporate income tax at the rate of 25% on our worldwide income. Furthermore, we would then be obligated to withhold PRC income tax of up to 7% on payments of distributions and certain other amounts on the Securities to investors that are non-resident enterprises located in Hong Kong or 10% on payments of distributions on the Securities to investors that are non-resident enterprises located

outside Hong Kong, because the distribution would be regarded as being derived from sources within the PRC. In addition, if we were to fail to do so, we would be subject to fines and other penalties. Further, any gain realized by a non-resident enterprise investor from the transfer of the Securities would be regarded as being derived from sources within the PRC and, accordingly, would then be subject to a 10% PRC withholding tax.

**Fluctuation in the value of the Renminbi may have a material adverse effect on our business.**

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC.

On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Further, on May 18, 2007, the PBOC enlarged, the floating band for the trading prices in the interbank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 21.3% from July 21, 2005 to April 9, 2010. Any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable to us by our PRC subsidiaries. For example, an appreciation of the Renminbi against the U.S. dollar would make any new Renminbi denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into Renminbi for such purposes.

**Uncertainty with respect to the PRC legal system could adversely affect us.**

As all 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 organization 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.

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 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 Securities. 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.

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

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as the H5N1 avian flu or the human swine flu, especially in the cities where we have operations, may result in material disruptions to our property development and our sales and marketing, which in turn may materially and adversely affect our financial condition and results of operations.

***Risks Relating to the Securities***

**The Securities are perpetual securities and the Holders of Securities have limited rights to require redemption.**

The Issuer is under no obligation to redeem the Securities at any time. A Holder of a Security has no right to require redemption except:

- upon the delisting of the Shares or a suspension of trading of the Shares for more than 90 Stock Exchange Business Days; and
- after the occurrence of certain defaults as described in the Conditions.

Otherwise, the Securities can only be disposed of by sale. Holders of Securities who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities.

**Securities are subordinated obligations.**

The obligations of the Issuer under the Securities, and of the Guarantor under the Guarantee, will constitute unsecured and subordinated obligations of the Issuer and the Guarantor, respectively. In the event of the Winding-Up of the Issuer or the Guarantor, the rights of the Holders of Securities to receive payments in respect of the Securities will rank senior to the holders of all classes of issued shares in the capital of the Issuer and the Guarantor, but junior to the claims of all other creditors (as described in Condition 3 of the Conditions).

In the event of a shortfall of funds or a Winding-Up, there is a real risk that an investor in the Securities will lose all or some of its investment and will not receive a full return of the principal amount or any unpaid Arrears of Distribution or accrued Distribution.

In addition, there is no restriction on the amount of securities or other liabilities which we may issue or incur and which rank senior to, or pari passu with, the Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders of Securities on a Winding-Up of the Issuer and/or the Guarantor and/or may increase the likelihood of a deferral of Distribution under the Securities.

**Holders of the Securities may not receive Distribution payments if we elect to defer Distribution payments at our option.**

The Issuer may, at its sole discretion, elect to defer any scheduled Distribution (an “Arrears of Distribution”) on the Securities for any period of time. Any Arrears of Distribution shall not bear interest. Each of the Issuer and the Guarantor is subject to certain restrictions in relation to the payment of dividends on its share capital and Parity Securities and the redemption and repurchase of its share capital and Parity Securities until such Arrears of Distribution is satisfied. The Issuer is not subject to any limits as to the number of times Distributions can be deferred pursuant to the Conditions of the Securities subject to compliance with the foregoing restrictions. Although Distributions are cumulative, the Issuer may defer their payment for an indefinite period of time by delivering the relevant deferral notices to the Holders of Securities.

**The Securities may be redeemed at our option at any time on or after five years after the Issue Date or the occurrence of certain other events.**

The Conditions provide that the Securities are redeemable at our option at any time after five years after the Issue Date at 110% of their principal amount together with all outstanding Arrears of Distribution and any unpaid Distributions accrued up to the date of redemption, or at any time after at least 90% of principal amount of the Securities has already been converted, redeemed or purchased and cancelled at 100% of their principal amount together with all outstanding Arrears of Distribution and any unpaid Distributions accrued up to the date of redemption.

We also have the right to redeem the Securities at 100% of their principal amount together with all outstanding Arrears of Distribution and any unpaid Distributions accrued up to the date of redemption if there are any changes in the accounting treatment of the Securities such that the Securities would cease to qualify as equity in the financial statements of the Guarantor or changes to the laws or regulations of the British Virgin Islands, Hong Kong or any political subdivision or any authority thereof or therein having power to tax such that the Issuer or the Guarantor has or will become obliged to pay Additional Tax Amounts as referred to in the Conditions.

The date on which we elect to redeem the Securities may not accord with the preference of individual Holders of Securities. This may be disadvantageous to holders in light of market conditions or the individual circumstances of the Holder of Securities. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

**We can compel conversion of the Securities**

We have the right to compel conversion of any Securities on or after [●] 2011 in the circumstances described in the Conditions (see Condition 8(B) for details). Consequently, Securities held by any Holder may be compulsorily converted into Shares as determined by us, at dates not previously contemplated by the holder, which may be disadvantageous in light of market conditions or a Holder’s individual circumstances.

In addition, should Holders fail to submit their Conversion Notices before the expiry of the Forced Conversion Notice Period, such Securities shall nevertheless be converted into Shares and such Shares shall be delivered to an agent of the Trustee located in Hong Kong. Share certificates will be issued by the Guarantor in the name of an agent of the Trustee located in Hong Kong and all of the Shares delivered on such conversion shall be sold by the Trustee. The Trustee is not obliged to maximize the price obtainable on the open market for such Shares and will sell all such Shares as soon as possible.

**There are limited remedies for default under the Securities.**

Any scheduled distribution will not be due if we elect to defer that Distribution pursuant to the Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to

institute Winding-Up proceedings is limited to circumstances where payment has become due and the Issuer (failing which, the Guarantor) fails to make the payment when due. The only remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer and the Guarantor as provided in the Conditions) any Holder of Securities for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities under the Securities will be proving in such Winding-Up and/or claiming in the liquidation of the Issuer and/or the Guarantor in respect of any payment obligations of the Issuer and/or the Guarantor arising from the Securities under the Trust Deed.

**We may be unable to redeem the Securities.**

On certain dates, we may be required to redeem all or a portion of the Securities. We may not have sufficient cash and may not be able to arrange financing to redeem the Securities in time, or on acceptable terms, or at all. The ability to redeem the Securities in such event may also be limited by the terms of our other debt instruments.

**The Issuer does not have any material assets or operations.**

The Issuer is a direct wholly-owned subsidiary of the Company incorporated for the principal purpose of issuing the Securities. See “Corporate Structure”. In the event that the Company and its subsidiaries do not make such payments due to lack of available cash flow or other factors, our ability to make payments under the Securities will be adversely affected.

**The Securities will be effectively subordinated to the liabilities of our subsidiaries.**

The Guarantor operates principally through subsidiaries, associated companies and joint venture companies. Our ability to pay any amounts due in respect of the Securities is dependent upon the earnings of the Guarantor’s subsidiaries, associated companies and joint venture companies. Further, the Guarantor’s ability to discharge its obligations under the Guarantee will be effectively subordinated to all existing and future obligations of its subsidiaries, associated companies and joint venture companies, because claims of creditors of its subsidiaries, associated companies and joint venture companies, including trade creditors and bank lenders, will have priority as to the assets of such subsidiaries, associated companies and joint venture companies over our claims and claims of holders of our indebtedness, including holders of the Securities.

**If you hold Securities, you are not entitled to any rights with respect to the Shares, but you are subject to all changes made with respect to the Shares.**

If you hold Securities, you are not entitled to any rights with respect to the Shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on the Shares) prior to the time you convert the Security for such Shares and are registered as the holder thereof, but you are subject to all changes affecting the Shares. For example, in the event that an amendment is proposed to the Company’s articles requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to the date you convert the Security for such Shares and (as applicable) become registered as the holder thereof, you will not be entitled to vote on the amendment, although if you convert the Securities into Shares you will nevertheless be subject to any resulting changes in the powers, preferences or special rights that affect the Shares.

**Short selling of the Shares by purchasers of the Securities could materially and adversely affect the market price of the Shares.**

The issuance of the Securities may result in downward pressure on the market price of the Shares. Many investors in convertible securities seek to hedge their exposure in the underlying equity

securities, often through short selling the underlying equity securities or similar transactions. Any short selling or similar hedging activity could place significant downward pressure on the market price of the Shares, thereby having a material adverse effect on the market value of the Shares as well as on the trading price of the Securities.

**Future issuances of Shares or equity-related securities may depress the trading price of the Shares.**

Any issuance of equity securities after this offering of Securities could dilute the interest of the existing shareholders and could substantially decrease the trading price of the Shares. We may issue equity securities in the future for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding warrants, options or other convertible securities or for other reasons. Sales of a substantial number of Shares or other equity-related securities in the public market (or the perception that such sales may occur) could depress the market price of the Shares, and impair our ability to raise capital through the sale of additional equity securities. There is no restriction on our ability to issue securities or the ability of any of our shareholders to dispose of, encumber or pledge the Shares, and there can be no assurance that we will not issue securities or that our shareholders will not dispose of, encumber or pledge the Shares. We cannot predict the effect that future sales of the Shares or other equity-related securities would have on the market price of the Shares. In addition, the price of the Shares could be affected by possible sales of the Shares by investors who view the Securities as a more attractive means of obtaining equity participation in us and by hedging or engaging in arbitrage trading activity involving the Securities.

**Holders will bear the risk of fluctuations in the price of the Shares.**

The market price of the Securities at any time will be affected by fluctuations in the price of the Shares. There can be no certainty as to the effect, if any, that future issues or sales of Shares, or the availability of Shares for future issue or sale, will have on the market price of the Shares prevailing from time to time and therefore on the price of the Securities.

Sales of substantial numbers of Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Shares and the Securities. In addition, COSCO, one of our significant shareholders, has publicly announced that it expects to sell its shareholding in us. Such a sale, or the perception that it may occur, could adversely affect the prevailing market price of the Shares and the Securities.

Our results of operations, financial condition, future prospects and business strategy could also affect the value of the Shares. The trading price of the Shares will be influenced by our operational results (which in turn are subject to the various risks to which our businesses and operations are subject) and by other factors such as changes in the regulatory environment that may affect the markets in which we operate and capital markets in general. Corporate events such as share sales, reorganizations, takeovers or share buy-backs may also adversely affect the value of the Shares. Any decline in the price of the Shares would adversely affect the market price of the Securities.

Conversion of the Securities would dilute the ownership interest of existing shareholders and could also adversely affect the market price of the Shares. The conversion of some or all of the Securities would dilute the ownership interests of existing shareholders.

Any sales in the public market of the Shares issuable upon such conversion could adversely affect prevailing market prices for the Shares. In addition, the conversion of the Securities might encourage short selling of the Shares by market participants.

**Holders have limited anti-dilution protection.**

The Conversion Price will be adjusted in the event that there is a sub-division, consolidation or redenomination, rights issue, bonus issue, reorganization, capital distribution or other adjustment, including a scheme which affects Shares but only in the situations and only to the extent provided in the “Terms and Conditions of the Securities — Conversion”. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Securities.

**If we issue a cash dividend on the Shares, U.S. investors may be deemed to have received a taxable dividend without the receipt of any cash.**

If we issue any cash dividend on the Shares in the future, the conversion rate will be adjusted and U.S. investors may be deemed to have received a taxable dividend subject to U.S. federal income tax without the receipt of any cash. See “Taxation — U.S. Federal Income Taxation”.

**An active trading market for the Securities may not develop.**

The Securities are a new issue of securities for which there is currently no trading market. There can be no assurance as to the liquidity of the Securities or that an active trading market will develop. If such a market were to develop, the Securities could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, our operations and the market for similar securities. Moreover, we expect that a limited number of investors will hold a substantial portion of the Securities following the offering. This concentrated holding could adversely impact the liquidity of the Securities.

Even if an active trading market were to develop, the Securities could trade at prices that may be lower than the initial offering price. Future trading prices of the Securities will depend on, and may fluctuate as a result of, many factors, including, among other things:

- prevailing interest rates and interest rate volatility;
- the market for similar securities;
- our operating results;
- our proposal of new investments, strategic alliances and/or acquisitions;
- the publication of earnings estimates or other research reports and speculation in the press or investment community;
- the market price of the Shares;
- changes in our industry and competition; and
- general market and economic conditions.

**The Securities contain provisions regarding modification, waivers and substitution which may affect your rights.**

The Conditions contain provisions for calling meetings of holders of Securities to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders of Securities, including Holders of Securities who did not attend and vote at the relevant meeting and Holders of Securities who voted in a manner contrary to the majority. In addition, an Extraordinary Resolution in writing signed by or on behalf of the holders of not less than 90% of the aggregate principal amount of Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holder of Securites duly convened and held.

The Conditions also provide that the Trustee may, without the consent of holders of Securities, subject as provided in the Conditions and the Trust Deed, agree to (a) any modification of any of the provisions of the Securities which in the Trustee's opinion is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, and (b) any other modification to the Securities (except as mentioned in the Trust Deed), and any waiver or authorization of any breach or proposed breach, of any of the provisions of the Securities which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders of Securities or (c) the substitution of any Subsidiary of the Issuer as principal debtor under any Securities in place of the Issuer, in certain circumstances and provided that, in the opinion of the Trustee, such substitution is not materially prejudicial to the interests of the Holders of Securities. Any such modification, authorization or waiver shall be binding on the Holders of Securities.

**Enforcement of the rights of holders under the Securities across multiple jurisdictions may prove difficult.**

The Issuer has no material assets and substantially all of the Company's 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, Canada, the United Kingdom, Japan or most other western countries. Therefore, it may be difficult to seek the recognition and enforcement of judgments obtained in these jurisdictions in the PRC.

**The Securities may not be a suitable investment for all investors.**

Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities and the merits and risks of investing in the Securities and the information contained;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact such investment will have on its overall investment portfolio;
- understand thoroughly the terms of the Securities; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

## CAPITALIZATION

### Capitalization and Indebtedness of the Company

As at April 30, 2010 the authorized share capital of the Company was HK\$8,000,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.80 par value each and its issued share capital was HK\$4,509,801,546 consisting of 5,637,251,932 ordinary shares of HK\$0.80 par value each.

The following table sets forth the consolidated capitalization and indebtedness of the Company as at April 30, 2010 as if they were in issue on April 30, 2010):

|  | <b>As of April 30, 2010</b>                |              |                    |             |
|--|--|--------------|--------------------|-------------|
|  | <b>Actual</b>                              |              | <b>As adjusted</b> |             |
|  | <i>RMB</i>                                 | <i>US\$</i>  | <i>RMB</i>         | <i>US\$</i> |
|  | <i>(in millions)</i><br><i>(unaudited)</i> |              |                    |             |
| <b>Cash and bank balances<sup>(1)</sup></b>                                      | <u>13,574</u>                              | <u>1,989</u> | <u>[●]</u>         | <u>[●]</u>  |
| <b>Short-term borrowings (including current portion of long-term borrowings)</b> | <u>6,243</u>                               | <u>915</u>   | <u>[●]</u>         | <u>[●]</u>  |
| <b>Long-term borrowing</b>   | <u>22,365</u>                              | <u>3,277</u> | <u>[●]</u>         | <u>[●]</u>  |
| <b>Capital and reserves:</b>   |  |              |                    |             |
| Share capital and premium  | 20,119                                     | 2,948        | [●]                | [●]         |
| Reserves   | <u>(540)</u>                               | <u>(79)</u>  | <u>[●]</u>         | <u>[●]</u>  |
| Retained earnings  | 4,377                                      | 641          | [●]                | [●]         |
| Securities to be issued in this offering   | —  | —            | [●]                | [●]         |
| Equity attributable to our equity holders  | 23,956                                     | 3,510        | [●]                | [●]         |
| Non-controlling interests  | <u>769</u>                                 | <u>113</u>   | <u>[●]</u>         | <u>[●]</u>  |
| <b>Total capital and reserves</b>  | <u>24,725</u>                              | <u>3,623</u> | <u>[●]</u>         | <u>[●]</u>  |
| <b>Total capitalization<sup>(2)</sup></b>  | <u>53,333</u>                              | <u>7,815</u> | <u>[●]</u>         | <u>[●]</u>  |

*Notes:*

- (1) Cash and bank balances include restricted bank deposits of RMB766 million.
- (2) Total capitalization equals total short-term borrowings and total long-term borrowings plus total capital and reserves.
- (3) In accordance with HKFRS, the Securities and the conversion right of the Securities should be recognized as separate components in our equity. For illustrative purposes only, the aggregate principal amount of the Securities to be issued has been presented as one item in the Group's equity in the table above.
- (4) Other than as disclosed above, there has been no material change in the capitalization of the Company since April 30, 2010.

## SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

### Consolidated income statements information

|   | Year ended<br>December 31, |                |                | Four months ended<br>April 30, |                |               |
|---|----------------------------|----------------|----------------|--------------------------------|----------------|---------------|
|   | 2007<br>(RMB)              | 2008<br>(RMB)  | 2009<br>(RMB)  | 2009<br>(RMB)                  | 2010<br>(RMB)  | 2010<br>(USD) |
|   | <i>(audited)</i>           |                |                | <i>(unaudited)</i>             |                |               |
|   | <i>(in millions)</i>       |                |                |                                |                |               |
| Revenue   | 5,750                      | 6,487          | 8,824          | 1,843                          | 2,460          | 360           |
| Cost of sales   | <u>(3,843)</u>             | <u>(3,667)</u> | <u>(6,167)</u> | <u>(1,268)</u>                 | <u>(1,819)</u> | <u>(267)</u>  |
| <b>Gross profit</b>   | 1,907                      | 2,820          | 2,657          | 575                            | 641            | 93            |
| Other income  | 359                        | 215            | 211            | 63                             | 63             | 9             |
| Other (losses)/gains — net  | (28)                       | 127            | (8)            | 11                             | 4              | 1             |
| Gain on disposal of a jointly controlled entity                                   | <u>910</u>                 | <u>—</u>       | <u>—</u>       | <u>—</u>                       | <u>—</u>       | <u>—</u>      |
| Fair value gain on investment properties  | 418                        | —              | 709            | —                              | 463            | 68            |
| Selling and marketing costs   | (129)                      | (251)          | (319)          | (79)                           | (106)          | (16)          |
| Administrative expenses   | <u>(302)</u>               | <u>(420)</u>   | <u>(320)</u>   | <u>(121)</u>                   | <u>(126)</u>   | <u>(18)</u>   |
| <b>Operating profit</b>   | 3,135                      | 2,491          | 2,930          | 449                            | 939            | 137           |
| Fair value (loss)/gain on derivative financial instruments                        | (49)                       | 56             | —              | —                              | —              | —             |
| Finance costs   | (214)                      | (161)          | (309)          | (38)                           | (21)           | (3)           |
| Share of (losses)/profits of a jointly controlled entity and associated companies | <u>(15)</u>                | <u>(2)</u>     | <u>(54)</u>    | <u>(10)</u>                    | <u>(7)</u>     | <u>(1)</u>    |
| <b>Profit before income tax</b>   | 2,857                      | 2,384          | 2,567          | 401                            | 911            | 133           |
| Income tax expense  | <u>(1,065)</u>             | <u>(939)</u>   | <u>(929)</u>   | <u>(184)</u>                   | <u>(250)</u>   | <u>(37)</u>   |
| Profit for the period from continuing operations                                  | 1,792                      | 1,445          | 1,638          | 217                            | 661            | 96            |
| Loss for the period from discontinued operations                                  | <u>—</u>                   | <u>—</u>       | <u>—</u>       | <u>(1)</u>                     | <u>(4)</u>     | <u>—</u>      |
| <b>Profit for the period</b>  | <u>1,792</u>               | <u>1,445</u>   | <u>1,638</u>   | <u>216</u>                     | <u>657</u>     | <u>96</u>     |
| <b>Attributable to:</b>   |                            |                |                |                                |                |               |
| Equity holders of the Company   | 1,722                      | 1,388          | 1,582          | 216                            | 657            | 96            |
| Non-controlling interests   | <u>70</u>                  | <u>57</u>      | <u>56</u>      | <u>—</u>                       | <u>—</u>       | <u>—</u>      |



## Consolidated balance sheets

|   | As at December 31,        |  |                           | As at April 30,           |  |
|---|---------------------------|--|---------------------------|---------------------------|--|
|   | 2007<br>(RMB<br>millions) | 2008<br>(RMB<br>millions)<br>(audited) | 2009<br>(RMB<br>millions) | 2010<br>(RMB<br>millions) | 2010<br>(USD<br>millions)<br>(unaudited) |
| <b>ASSETS</b>   |                           |  |                           |                           |  |
| <b>Non-current assets</b>   |                           |  |                           |                           |  |
| Property, plant and equipment   | 293                       | 305                                    | 325                       | 186                       | 27                                       |
| Land use rights   | 37                        | 37                                     | 39                        | 69                        | 10                                       |
| Investment properties   | 1,984                     | 1,984                                  | 3,984                     | 4,614                     | 676                                      |
| Goodwill  | 757                       | 735                                    | 663                       | 658                       | 96                                       |
| Interest in a jointly controlled entity                                   | —                         | —                                      | 672                       | 671                       | 98                                       |
| Interests in associates   | 327                       | 311                                    | 294                       | 289                       | 42                                       |
| Available-for-sale financial assets                                       | 67                        | 427                                    | 593                       | 531                       | 78                                       |
| Derivative financial instrument   | —                         | 8                                      | 8                         | —                         | —  |
| Trade and other receivables   | 603                       | 250                                    | 893                       | 67                        | 10                                       |
| Deferred income tax assets  | 102                       | 112                                    | 306                       | 327                       | 48                                       |
| <b>Total non-current assets</b>   | <b>4,170</b>              | <b>4,169</b>                           | <b>7,777</b>              | <b>7,412</b>              | <b>1,085</b>                             |
| <b>Current assets</b>   |                           |  |                           |                           |  |
| Deposits for land use rights  | 5,580                     | 4,067                                  | 7,371                     | 19,420                    | 2,846                                    |
| Properties under development  | 13,003                    | 18,444                                 | 22,254                    | 25,130                    | 3,682                                    |
| Inventories, at cost  | 1                         | 80                                     | 100                       | 202                       | 30                                       |
| Land under development  | 2,994                     | 1,840                                  | 927                       | 1,988                     | 291                                      |
| Completed properties held for sale  | 1,735                     | 4,243                                  | 3,484                     | 1,725                     | 253                                      |
| Derivative financial instrument   | —                         | —                                      | —                         | 8                         | 1  |
| Trade and other receivables   | 934                       | 1,588                                  | 1,719                     | 2,652                     | 389                                      |
| Restricted bank deposits  | 880                       | 810                                    | 896                       | 766                       | 112                                      |
| Cash and cash equivalents   | 8,469                     | 8,027                                  | 17,620                    | 12,808                    | 1,877                                    |
|   | <u>33,596</u>             | <u>39,099</u>                          | <u>54,371</u>             | <u>64,699</u>             | <u>9,481</u>                             |
| Assets of disposed group classified as held-for-sale                      | —                         | —                                      | —                         | 206                       | 30                                       |
| <b>Total current assets</b>   | <b>33,596</b>             | <b>39,098</b>                          | <b>54,371</b>             | <b>64,905</b>             | <b>9,511</b>                             |
| <b>Total assets</b>   | <b>37,766</b>             | <b>43,267</b>                          | <b>62,148</b>             | <b>72,317</b>             | <b>10,596</b>                            |
| <b>EQUITY</b>   |                           |  |                           |                           |  |
| <b>Capital and reserves attributable to equity holders of the Company</b> |                           |  |                           |                           |  |
| Share capital and premium   | 14,191                    | 14,186                                 | 20,118                    | 20,119                    | 2,948                                    |
| Reserves  | (399)                     | (227)                                  | (485)                     | (540)                     | (79)                                     |
| Retained earnings   |                           |  |                           |                           |  |
| — proposed final dividend   | 503                       | 289                                    | 248                       | 248                       | 36                                       |
| — others  | 1,529                     | 2,405                                  | 3,487                     | 4,129                     | 605                                      |
| Equity attributable to equity holders of the Company                      | 15,824                    | 16,653                                 | 23,368                    | 23,956                    | 3,510                                    |
| Non-controlling interests   | 1,054                     | 1,130                                  | 518                       | 769                       | 113                                      |
| <b>Total equity</b>   | <b>16,878</b>             | <b>17,783</b>                          | <b>23,886</b>             | <b>24,725</b>             | <b>3,623</b>                             |

|   | As at December 31,        |  |                           | As at April 30,                          |  |
|---|---------------------------|--|---------------------------|--|--|
|   | 2007<br>(RMB<br>millions) | 2008<br>(RMB<br>millions)<br>(audited) | 2009<br>(RMB<br>millions) | 2010<br>(RMB<br>millions)<br>(unaudited) | 2010<br>(USD<br>millions)<br>(unaudited) |
| <b>LIABILITIES</b>                                    |                           |  |                           |  |  |
| <b>Non-current liabilities</b>                        |                           |  |                           |  |  |
| Preference shares of a subsidiary                     | 145                       | —                                      | —                         | —  | —  |
| Borrowings  | 8,003                     | 8,779                                  | 17,187                    | 22,365                                   | 3,277                                    |
| Derivative financial instrument                       | 158                       | —                                      | —                         | —  | —  |
| Deferred income tax liabilities                       | 773                       | 790                                    | 999                       | 1,436                                    | 210                                      |
|   | <u>9,079</u>              | <u>9,569</u>                           | <u>18,186</u>             | <u>23,801</u>                            | <u>3,487</u>                             |
| <b>Current liabilities</b>                            |                           |  |                           |  |  |
| Borrowings  | 3,281                     | 5,965                                  | 4,653                     | 6,243                                    | 915                                      |
| Derivative financial instrument                       | —                         | 2                                      | —                         | —  | —  |
| Trade and other payables                              | 4,584                     | 5,010                                  | 4,526                     | 3,793                                    | 555                                      |
| Advances from customers                               | 3,012                     | 3,749                                  | 9,495                     | 12,262                                   | 1,796                                    |
| Income tax payable                                    | 932                       | 1,190                                  | 1,402                     | 1,291                                    | 189                                      |
|   | <u>11,809</u>             | <u>15,916</u>                          | <u>20,076</u>             | <u>23,589</u>                            | <u>3,456</u>                             |
| Liabilities of subsidiary classified as held for sale | —                         | —                                      | —                         | 201                                      | 30                                       |
|   | <u>11,809</u>             | <u>15,916</u>                          | <u>20,076</u>             | <u>23,791</u>                            | <u>3,486</u>                             |
| <b>Total liabilities</b>                              | <u>20,888</u>             | <u>25,485</u>                          | <u>38,262</u>             | <u>47,592</u>                            | <u>6,973</u>                             |
| <b>Total equity and liabilities</b>                   | <u>37,766</u>             | <u>43,268</u>                          | <u>62,148</u>             | <u>72,317</u>                            | <u>10,596</u>                            |
| <b>Net current assets</b>                             | <u>21,787</u>             | <u>23,183</u>                          | <u>34,295</u>             | <u>41,114</u>                            | <u>6,025</u>                             |
| <b>Total assets less current liabilities</b>          | <u>25,957</u>             | <u>27,352</u>                          | <u>42,072</u>             | <u>48,526</u>                            | <u>7,110</u>                             |

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

*The following discussion should be read in conjunction with our consolidated financial statements and our condensed consolidated interim financial information together with their accompanying notes. Our consolidated financial statements were prepared in accordance with HKFRS, which differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences between HKFRS and U.S. GAAP".*

*This section includes forward-looking statements that involve risks and uncertainties. Other than statement of historical facts, all statements included in this section that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses we made in light of experience, together with our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances.*

*Unless the context otherwise requires, references to "2007", "2008" and "2009" are to our financial years ended December 31, 2007, 2008 and 2009, respectively. References to "associate" or "associates" in this section are to associates as defined in HKFRS.*

### OVERVIEW

We are a leading real estate developer in Beijing and have a significant market presence across the Pan-Bohai Rim region of China, including in Dalian and Tianjin, as well as in several other major cities in China. We have a diversified portfolio of development projects and investment properties and have leveraged our initial experiences and success in Beijing to expand into other selected high-growth areas in China, including the Pan-Bohai Rim and Pearl River Delta regions, while solidifying our leadership position in Beijing. In addition, we are continuing to leverage our experience and brand by undertaking development projects in important coastal cities in China such as Hangzhou and Qingdao, while beginning to build a market presence in economically vibrant cities in southwest China, and selectively establishing ourselves in certain emerging markets in China such as Sanya and Huangshan. With over 16 years of experience in China's real estate industry, we have accumulated in-depth knowledge of China's property market. We believe that our track record of successfully developing and completing 15 high quality projects has firmly established "Sino-Ocean" as a reputable and well-known brand.

We primarily develop medium to high-end residential properties, premium grade office buildings, retail space, serviced apartments and hotels and have 37 projects at various stages of development in Beijing, Tianjin, Shenyang, Dalian, Zhongshan, Qingdao, Huangshan, Hangzhou and Sanya. From January 1, 2007 through April 30, 2010, we had completed the development of projects with a total GFA of approximately 3.1 million sq.m. Our current land bank includes a total planned GFA of approximately 14.5 million sq.m.

For the year ended December 31, 2009 and the four months ended April 30, 2010, we generated approximately 93%, 2% and 5% of our revenue, respectively, from property development, property investment and other activities (including hotel operation, property management and other real estate related businesses). For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our revenue was RMB5,750 million, RMB6,487 million, RMB8,824 million and RMB2,460 million, respectively, and the profit attributable to equity holders of the Company was RMB1,722 million, RMB1,388 million, RMB1,582 million and RMB657 million, respectively. In line with our expansion strategy, we anticipate that revenue attributable to the sales of properties outside Beijing will increase as a percentage of our overall revenue going forward.

## BASIS OF PRESENTATION

Our consolidated income statements, consolidated statements of cash flows and consolidated statements of changes in equity for the years ended December 31, 2007, 2008 and 2009 and the first four months of 2009 and 2010 and related discussion included in this section have been prepared on the assumption that our current structure has been in existence since January 1, 2007. Our consolidated balance sheets as at December 31, 2007, 2008 and 2009 and April 30, 2010 also have been prepared as if our current structure had been in existence as at their respective dates. Please refer to Note 2 to our audited consolidated financial statements for the year ended December 31, 2009 for further description of the basis on which we have prepared our financial information.

Our consolidated financial statements have been prepared in accordance with HKFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, such as U.S. GAAP. See “Summary of Certain Differences between HKFRS and U.S. GAAP”.

## RECENT DEVELOPMENTS

We entered into an agreement on June 29, 2010 to acquire approximately 69.02% of the existing issued share capital of Kee Shing Holdings Limited (“Kee Shing”), a company engaged primarily in property investment, securities investment and trading that is listed on the Hong Kong Stock Exchange, for an aggregate consideration of approximately HK\$474 million, equivalent to approximately HK\$1.542 per share (the “Kee Shing Acquisition”). The final purchase price is subject to adjustment in certain circumstances, and completion of the acquisition is subject to, among other things, obtaining all necessary consents and approvals for a reorganization of Kee Shing (the “Kee Shing Reorganization”) in connection with which Kee Shing’s trading business will be spun-off to the current shareholders of Kee Shing prior to our acquisition of Kee Shing.

Completion of the Kee Shing Acquisition is expected to take place on the fifth business day after fulfillment or waiver (as the case may be) of the conditions precedent in the acquisition agreement, including the Kee Shing Reorganization. Upon completion of the Kee Shing Acquisition, Kee Shing will have an investment portfolio including two properties. It is our intention after acquiring the controlling stake in Kee Shing to use it as a stand-alone platform for property-related businesses.

We intend that Kee Shing will remain separately listed on the Hong Kong Stock Exchange upon completion of our acquisition of the 69.02% interest in Kee Shing. We will undertake to the Hong Kong Stock Exchange to take appropriate steps to ensure that, as soon as possible upon close of the acquisition, not less than 25% (or such other percentage as may be required from time to time) of the issued shares of Kee Shing will be held by the public as required by the Listing Rules.

## FINANCING OF OUR PROJECTS

We finance our projects primarily through bank loans, internally generated cash flows, including proceeds from the pre-sale and sale of our projects and through capital raising transactions. The following summarizes our main sources of funds for financing our projects:

- **Bank loans.** As at December 31, 2009 and April 30, 2010, we had RMB19,261 million and RMB23,528 million in total bank loans outstanding, respectively. The majority of our bank loans are project-specific and are borrowed onshore to fund construction prior to the relevant projects reaching the pre-sale stage. Once we start to pre-sell the projects, we typically gradually repay such bank loans using the pre-sale proceeds received. We are often required to secure our onshore bank loans with properties under development, investment properties or other assets. In September 2009, we entered into a USD700 million offshore loan facility that is secured by share

charges over our equity interests in our non-PRC subsidiaries and a charge over the Hong Kong bank account into which funds drawn down from the facility are initially disbursed. Proceeds were used for general working capital, project acquisitions and to repay a USD215 million syndicated loan.

- **Proceeds from the pre-sale and sale of properties.** We conduct the sale of our properties primarily by way of pre-sale. Pre-sale proceeds are the sales proceeds we receive when we sell properties prior to their completion. Pre-sale proceeds of one phase of a project or one project can be used to fund further construction of the same phase or project. Upon obtaining a pre-sale permit from the relevant government authorities, we enter into pre-sale contracts with our customers. For purchasers who finance their purchases with mortgage financing, we generally require a minimum down payment of 40% to 50% of the purchase price for commercial property and about 20% to 50% of the purchase price for residential property at the execution of the pre-sale contract. If the purchaser has entered into a mortgage agreement, we receive the remaining purchase price from the relevant bank when the relevant property is topped out or completed, which may be up to one to two years after the execution of the pre-sale contract. We are normally required to deposit a portion of the down payment, which typically represents less than 2% of the amount of the mortgage, with a bank providing mortgage, as security for our guarantee of our purchaser's mortgage. The deposit is typically released when the purchaser obtains the property certificate and pledges it to the bank, which generally occurs one to two years after completion of construction of the project. For purchasers who do not require mortgage financing, we generally require between 30% and 50% of the purchase price to be paid upon execution of the pre-sale contract, and we receive the remaining purchase price in accordance with the agreed timeframe stipulated in the pre-sale contract, which is typically within 20 days from the signing of the contract. In addition to proceeds from the pre-sale of properties, we also generate proceeds from the sale of completed properties.
- **Capital raising transactions.** In September 2007, we raised approximately USD1.5 billion in our IPO. In June 2009, we issued corporate bonds in an aggregate principal amount of approximately RMB2.6 billion that mature in 2016 and bear interest at a rate of 4.4%. In December 2009, we completed a share placement to China Life and received approximately HKD5.8 billion in proceeds.

In the future, we expect to use funds from a combination of sources to fund new projects, including bank loans, internally generated cash flow and proceeds raised from the capital markets from time to time. Our access to funds may be affected by various factors, including the factors discussed under "Risk Factors" and "— Factors Affecting Our Results of Operations".

## **FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

### **Costs and procedures for acquiring suitable land**

As a real estate company, we depend to a large extent on our ability to secure suitable land for development at affordable prices. A key component of our cost of sales is land acquisition costs, which comprise primarily land premiums, the cost of demolition of existing buildings and the relocation of existing residents. Land premium is the payment to the land bureau for the right to occupy, use and develop a particular parcel of land, the amount of which is determined by the government, taking into consideration factors including floor area, the location of and competition for the relevant land. The cost of demolition and relocation generally represents the compensation we pay to the original residents and the expenses to clean up the site. The PRC government has provided some basic principles for determining the appropriate level of demolition cost and resettlement compensation. However, the actual demolition cost and resettlement compensation varies from site to site and is subject to negotiations between the developers and the original residents. In many instances, pursuant

to the land grant contract, the government takes responsibility for completing the demolition of original structures and the resettlement of the original residents on the land but requires us to pay an agreed amount to cover demolition and resettlement costs. In respect of the primary land development, we are responsible for the demolition and relocation.

In recent years, the acquisition costs of land have risen as a result of high demand for properties due to the growth of the PRC economy. In addition, in order to increase the transparency of the system for granting state-owned land, since 2002 the PRC government has operated under regulations requiring government departments and agencies to grant state-owned land use rights for residential or commercial property development through competitive processes, including public tenders, public auctions or listing at land exchanges administered by local governments. These competitive processes have significantly intensified competition among developers for available land and have thereby increased land acquisition costs. Typically, in order to participate in one of these competitive processes, we are required to pay deposits upfront, the amounts of which typically represent a substantial portion of the actual cost of the relevant land. This has accelerated the timing of our payment of land acquisition costs, which, in turn, has had a significant impact on our cash flow. Often the government has already completed various procedures in connection with primary land development for the relevant land before commencing the tendering, auction or listing process. As a result, once we acquire the land, it is often already in a state ready for secondary land development. In such cases, we are typically able to commence construction and pre-sale within a shorter timeframe.

### **Construction costs**

Another key component of our cost of sales is construction costs, which encompass all costs for the design and construction of a project, including payments to independent contractors and costs of the raw materials that we procure directly. Construction costs of our projects vary according to the floor area and height of the buildings as well as the geology of the construction site. Historically, construction material costs have been the principal driver of construction costs of our property developments, in part because the cost of independent contractors has been relatively stable. Construction costs may fluctuate as a result of changes in prices of construction materials such as steel and cement. For a substantial portion of our procurement of construction materials, we use a centralized procurement process to increase our negotiating power and lower our unit costs of construction materials. We also outsource some procurement of construction materials to our construction contractors and include the cost of such procurement at a capped amount in construction contracts. Through so doing, we can partially pass the risk of price fluctuations on to contractors. Despite these measures, we remain subject to long-term movements in the prices of construction materials. Our profitability may suffer if we cannot pass on any increased costs to our customers. Further, we typically pre-sell our properties prior to their completion, and, if our costs increase subsequent to the pre-sale, we may not be able to pass them on to our customers.

### **Fluctuation of results of operations**

Our results of operations tend to fluctuate from period to period. According to our accounting policy for revenue recognition, we recognize revenue from the sale and pre-sale of our properties upon delivery, which normally takes place one to two years after the commencement of pre-sales. See “— Critical Accounting Policies — Revenue recognition”. Because the delivery of our properties varies according to our construction timetable, our results of operations may vary significantly from period to period depending on the GFA and timing of delivery of the properties we sell. Periods in which we deliver more GFA typically generate a higher level of revenue. Periods in which we pre-sell a large aggregate GFA, however, may not generate a correspondingly high level of revenue if, for example, the properties pre-sold are not delivered within the same period. The effect of the timing of project delivery on our operational results is accentuated by the fact that during any particular period of time we can only undertake a limited number of projects due to the substantial capital requirements for land acquisitions and construction costs, as well as limited supply of land.

In addition, seasonal variations have caused fluctuations in our revenues and profits, including our quarterly and semiannual results. A substantial portion of our operations are in northern China, where the climate in winter is often not suitable for construction work. When possible, we typically seek to complete construction and deliver most of our properties before November and the onset of winter. As a result, we have typically recognized substantially more revenue in the second half of the year than in the first half, and our interim results typically are not representative of our annual results.

### **Performance of the PRC real estate market particularly in the Pan Bohai Rim region (including Beijing)**

Our entire revenue was generated from operations in China during the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010. In particular, our business has been concentrated in Beijing, while we have also expanded into other major cities in China including Tianjin, Dalian, Zhongshan, Shenyang and Hangzhou. Macroeconomic factors in China and the performance of the property market in China, and, in particular, in Beijing, Tianjin, Dalian, Zhongshan, Shenyang and other cities in which we have development projects, therefore directly impact our results of operations. The performance of the real estate market in China is affected by a number of macroeconomic factors, including the growth of the PRC economy, particularly the growth in the size and purchasing power of the upper and the middle class, the level of interest rates, the exchange rate of the Renminbi and the political, economic and regulatory environment in the PRC. Should the property markets in Beijing, Tianjin, Dalian, Zhongshan, Shenyang and other cities in which we operate experience any significant downturn, our results of operations would be adversely affected. See “Risk Factors — Risks Relating our Business — We are dependent on the performance of the PRC property sector, particularly in Beijing and the Pan-Bohai Rim region”.

### **PRC government control and policies**

Our results of operations have been, and will continue to be, affected by the regulatory environment in the PRC, in particular in Beijing and the Pan-Bohai Rim region, including policies relating to:

- land acquisition;
- pre-sales;
- the availability of mortgage financing;
- the availability of capital through loans or other sources;
- sales or other transfers of land use rights and completed properties;
- taxes;
- planning and zoning; and
- building design and construction.

For example, the regulations that require government departments and agencies to grant state-owned land use rights for residential or commercial property development through competitive processes have had a material impact on our operations. See “— Costs and procedures for acquiring suitable land”. In recent years the PRC government and Beijing local government have instituted a variety of measures designed to stabilize the real estate market, with particular focus on the residential sector. These policies may lead to changes in market conditions, including price stability and the balance of supply and demand in respect of residential properties. These measures have had an impact on the property market in Beijing, including particularly the residential property sector. See “Regulation”. We would be directly impacted by any regulations or measures adopted by the PBOC that restrict bank lending to enterprises, particularly to real estate developers. Moreover, a substantial portion of our purchasers depend on mortgage financing to purchase our properties. Regulations or measures adopted by the PRC government that restrict the ability of purchasers to obtain mortgages or that increase the costs of mortgage financing may decrease demand for our properties and adversely affect our revenue. See “Risk Factors — Risk Relating Our Business — Our operations are subject to extensive governmental regulation and in particular, we are susceptible to changes in policies related to the real property markets in the PRC”.

## **LAT**

Our property developments are subject to LAT with respect to the appreciated value of the related land and improvements on such land. LAT applies to both domestic and foreign investors in property in China, irrespective of whether investors are corporate entities or individuals. We estimate and make provisions for the full amount of the applicable LAT in accordance with the requirements set forth in the relevant PRC tax laws and regulations, but only pay a portion of such provisions each year as required by local tax authorities. Our provisions for LAT expenses for each of the years ended December 31, 2007, 2008 and 2009 as well as for the first four months of 2010 were RMB260 million, RMB420 million, RMB248 million and RMB47 million, respectively. We are required to prepay a portion of LAT equal to a specified percentage of our pre-sales proceeds set by local tax authorities that is generally assessed at a rate of less than 2%. See “Risk Factors — The relevant PRC tax authorities may enforce the payment of LAT and may challenge the basis on which we calculate our LAT obligations”.

## **Changes in product mix**

The prices and gross profit margins of our products vary by the types of properties we develop and sell. Our gross profit margin is affected by the proportion of sales revenue attributable to our higher gross margin products compared to sales revenue attributable to lower gross margin products. Historically, our low-density units, higher-end apartment units and retail shops have commanded higher average selling prices per square meter and gross margins than our mid-range apartment units. In addition, average selling prices and gross profit margins have typically been lower for developments outside of Beijing. Projects outside of Beijing and, in particular, in Tier 2 and Tier 3 cities, generally must sell more total GFA to achieve the same level of revenue as those in Beijing. Gross profit margins are typically lower in early phases and higher in later phases of our projects. Our product mix varies from period to period for a number of reasons, including government-regulated plot ratios, project locations, land size and cost, market conditions and our development planning. We adjust our product mix from time to time and time our project launches according to our development plans.

## **CRITICAL ACCOUNTING POLICIES**

We have identified certain accounting policies that are significant in the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operation, are set forth in detail in Note 3 to our audited consolidated financial statements for the year ended December 31, 2009. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition, cost or expense allocation and liability provisioning. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our financial statements. In addition, we discuss our revenue recognition policy below because of its significance even though it does not involve significant estimates or judgments.

### **Revenue recognition**

We recognize revenue from the sale of properties in our profit and loss accounts once the significant risks and rewards of ownership have been transferred to the buyers. Title to the property is normally not transferred for up to two years after delivery. The long lag time required to complete title transfer is common in the PRC real estate market. We consider the significant risks and rewards of ownership to have been transferred when the construction of properties is completed, the properties are delivered to the buyers pursuant to the sales agreement and the collectibility of the related receivables is



reasonably assured. We include deposits and installment payments received on properties sold prior to the date of revenue recognition, including pre-sale proceeds that we receive when we sell properties prior to their completion, in the balance sheet as advanced proceeds received from customers. Revenue from sales of properties is presented before business tax but after deduction of any trade discounts. For the small proportion of customers who are not required under the terms of their contracts with us to pay in full by delivery, we recognize the full revenue relating to these sales but suspend transfer of title until we receive payment in full. Any outstanding amounts owed to us are reflected as trade receivables on our balance sheet.

We recognize rental income on a straight-line basis over the lease terms. We recognize property management fee and consultancy fee income and hotel operating income in the period when the corresponding services are rendered.

### **Valuation of our investment properties**

Our investment properties are office properties that we hold for rental income. We state our investment properties at their fair value as non-current assets on our balance sheet on the basis of valuations by a qualified independent professional valuer. We supply the independent professional valuer with various information, including the leases existing on our investment properties and our estimate as to when and whether the lease terms may be extended, for the valuer to use as a basis of its valuation. We had fair value gains on investment properties of RMB418 million and RMB709 million for the years ended December 31, 2007 and 2009, respectively, zero fair value gain in 2008 and fair value gain on investment properties of RMB463 million for the four months ended April 30, 2010. The property valuation by the independent professional valuer involved the exercise of professional judgment and required the use of certain bases and assumptions with respect to factors including:

- current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rental rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The bases and assumptions used by the valuer for the valuation typically include comparisons to values realized in comparable precedent transactions in the market for properties of similar size, character and location. The fair value of our investment properties may have been higher or lower if the valuer used a different set of bases or assumptions or if the valuation were conducted by other qualified independent professional valuers. In addition, upward revaluation adjustments reflect unrealized capital gains on our investment properties at the relevant balance sheet dates and are not profit generated from the sales or rentals of our investment properties. They, therefore, do not generate any cash inflow to us. The amounts of revaluation adjustments have been, and may continue to be, significantly affected by trends in the PRC property market and may go down as well as up.

### **Deferred income tax**

Deferred tax assets and liabilities arise from deductible and taxable temporary differences, respectively, and represent the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets are recognized (to the extent that it is probable that future taxable profits will be available against which the asset can be utilized). Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and further provided that they are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits. Such differences are taken into account if they relate to the same taxation authority and the same taxable entity and if they are expected to reverse in a period, or in periods, in which the tax loss or credit can be utilized.

We were subject to PRC Enterprise Income Tax at a rate of 33% of taxable income during the year ended December 31, 2007 and a rate of 25% of taxable income during the two years ended December 31, 2008 and 2009 and the four months ended April 30, 2010. We did not generate any income subject to Hong Kong income tax during the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010.

## **LAT**

LAT provisions as part of income tax represent provisions for the estimated LAT payable in relation to our properties delivered during a period. See “— Factors Affecting Our Results of Operations — LAT” for a description on the PRC regulations in relation to LAT and our provisions for LAT in the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010. We make provisions based on our own calculations in accordance with our understanding of the relevant laws and regulations. Because at the time we deliver property we may not have completed the entire phase of a project or the project as a whole, our estimate of LAT provisions at this time requires us to use significant judgment with respect to, among other things, the total proceeds to be derived from the sale of the entire phase of the project or the entire project, the total appreciation of land values and the various deductible items. The ultimate tax determination may differ from the amounts that were initially recorded, which will affect our net profits in the relevant periods.

## **DESCRIPTION OF CERTAIN FINANCIAL STATEMENT ITEMS**

The following summarizes components of certain line items appearing in the consolidated financial statements included, which we believe to be helpful to an understanding of the period-to-period discussion that follows below.

### **Income statement items**

#### ***Revenue***

Our revenue consists primarily of proceeds from our property development business, including the sale of properties and the rental of our properties held for sale. We also generate a small portion of revenue from the lease of our investment properties, our hotel operations, and the provision of property management services, which together accounted for approximately 7% of our revenue in 2009 and 7% of our revenue in the first four months of 2010. Our revenue is presented before business tax.

The table below sets forth our revenue by business segment for the years ended December 31, 2007, 2008, 2009 and the four months ended April 30, 2009 and 2010:

|  | <b>Year ended<br/>December 31,<br/>2007 Total<br/>Revenue<br/>(RMB)</b> | <b>Year ended<br/>December 31,<br/>2008 Total<br/>Revenue<br/>(RMB)<br/>(audited)</b> | <b>Year ended<br/>December 31,<br/>2009 Total<br/>Revenue<br/>(RMB)</b> | <b>Four months<br/>ended April<br/>30, 2009 Total<br/>Revenue<br/>(RMB)</b> | <b>Four months<br/>ended April<br/>30, 2010 Total<br/>Revenue<br/>(RMB)<br/>(unaudited)</b> |
|--|---|---|---|---|---|
|  |   |   | <i>(in millions)</i>  |   |   |
| Property development                                   | 5,431   | 5,834   | 8,218   | 1,718   | 2,280   |
| Property investment                                    | 71  | 122   | 156   | 48  | 57  |
| Property management                                    | 145   | 146   | 172   | 50  | 71  |
| Other real estate related<br>businesses <sup>(1)</sup> | <u>103</u>  | <u>385</u>  | <u>278</u>  | <u>27</u>   | <u>52</u>   |
| <b>Total revenue</b>                                   | <u><u>5,750</u></u>   | <u><u>6,487</u></u>   | <u><u>8,824</u></u>   | <u><u>1,843</u></u>   | <u><u>2,460</u></u>   |

<sup>(1)</sup> Hotel operations have been included in other real estate related businesses in this chart for the years ended December 31, 2007, 2008 and 2009 but not included for the four months ended April 30, 2009 and 2010. The Beijing Western Premier Hotel is now held for sale and treated as a discontinued operation. See Note 22 to our condensed consolidated interim financial information for the four months ended April 30, 2010 included elsewhere.

The table below compares contributions to our total revenue by geographic location in percentages for the years ended December 31, 2007, 2008, 2009 and the four months ended April 30, 2009 and 2010:

|                      | <b>Year ended<br/>December 31,<br/>2007<br/>Percent of<br/>Total Revenue</b> | <b>Year ended<br/>December 31,<br/>2008<br/>Percent of<br/>Total Revenue</b> | <b>Year ended<br/>December 31,<br/>2009<br/>Percent of<br/>Total Revenue</b> | <b>Four months<br/>ended April<br/>30, 2009<br/>Percent of<br/>Total Revenue</b> | <b>Four months<br/>ended April<br/>30, 2010<br/>Percent of<br/>Total Revenue</b> |
|----------------------|--|--|--|--|--|
| Beijing              | 79%  | 80%  | 61%  | 76%  | 80%  |
| Tianjin              | 21%  | 5%   | 8%   | 9%   | 3%   |
| Dalian               | —  | 10%  | 10%  | 12%  | 2%   |
| Shenyang             | —  | —  | 8%   | —  | 5%   |
| Zhongshan            | <u>—</u>   | <u>5%</u>  | <u>13%</u>   | <u>3%</u>  | <u>10%</u>   |
| <b>Total revenue</b> | <u><u>100%</u></u>   | <u><u>100%</u></u>   | <u><u>100%</u></u>   | <u><u>100%</u></u>   | <u><u>100%</u></u>   |

### *Cost of sales*

Our cost of sales includes primarily the cost of properties sold, as well as direct costs relating to our property investment, hotel operation, property management, property sales agency and related services, including staff costs, business tax and levies, advertising and marketing expenses, depreciation and amortization, office expenses, and others. Cost of properties sold comprises costs of land, construction costs and capitalized interest expenses.

### *Other income*

Our other income primarily consists of interest income and dividend income from available-for-sale financial assets.

### ***Other gains/(losses) — net***

Our other (losses)/gains consist of gains on disposals or deemed disposals of subsidiaries, losses on disposal of property, plant and equipment, and exchange gains/(losses).

### ***Fair value gain on investment properties***

See “Critical Accounting Policies — Valuation of our investment properties”.

### ***Selling and marketing costs***

Our selling and marketing costs include primarily advertising and promotion cost and employee benefit expenses for marketing staff.

### ***Administrative expenses***

Our administrative expenses include primarily employee benefit expenses for administrative staff, office expenditures, depreciation and amortisation, professional and consultancy fees.

### ***Finance costs***

Our finance costs include interest expenses on borrowings less capitalized interest expenses.

### ***Income tax expense***

Our taxation includes provisions for PRC Enterprise Income Tax for each of our subsidiaries in the PRC, based on the statutory rate as determined in accordance with the relevant income tax rules and regulations of the PRC. Effective from January 1, 2008, the statutory tax rate applicable to us has been 25% of taxable income. In 2007, the statutory rate applicable to us was 33%.

The current Hong Kong profits tax rate that would be applicable to us had we generated any income in Hong Kong is 16.5%.

Income tax expense also includes LAT. Under the PRC laws and regulations, our PRC subsidiaries engaging in property development business are subject to LAT, determined by the local tax authorities in the cities in which each project is located. All income from the sales or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, as defined in the relevant tax laws, with certain exemptions available for the sale of ordinary residential properties if the appreciation values do not exceed 20% of the total deductible items, as defined in the relevant tax laws.

### ***Balance sheet items***

#### ***Trade and other receivables***

Trade and other receivables include trade receivables, tax prepayments, other receivables, prepayments and loans to various related parties. Trade receivables as at December 31, 2009 and April 30, 2010 primarily consisted of property management fees receivable in connection with the property management service that we provided.

Included in tax prepayment as at December 31, 2007, 2008 and 2009 as well as April 30, 2010 were primarily business tax levied and prepaid at 5% of pre-sale proceeds, and a portion of income tax prepaid on a certain percentage of pre-sale proceeds, both in compliance with relevant tax laws and regulations.

We also prepay LAT at less than 2% of pre-sale proceeds in compliance with relevant laws and regulations.

### ***Advanced proceeds received from customers***

Advanced proceeds received from customers represent proceeds received on property unit sales that have not been recognized as revenue in accordance with our revenue recognition policy.

### ***Goodwill***

As at December 31, 2007, 2008 and 2009, and April 30, 2010, goodwill mainly included the goodwill arising from the acquisition of project companies. Management is required to test goodwill annually for impairment. The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management and covering a five-year period. Cash flows beyond such five-year period are extrapolated using the estimates described below.

Key assumptions used for value-in-use calculations include gross margins, revenue growth rates and a discount rate. Management projects gross margins and revenue growth rates based on past performance and its expectations for future market developments.

The discount rate was based on our actual borrowing cost in 2009. Goodwill as at April 30, 2010 was considered to be the same as at December 31, 2009, since management is only required to test goodwill for impairment once a year.

### ***Restricted bank deposits***

Restricted bank deposits represent funds deposited with banks as security for our guarantee of mortgages. As described under “— Financing of Our Projects”, our project companies are required to keep on deposit a portion of the outstanding balances of purchasers’ mortgages until such purchasers obtain property certificates and pledge those with their mortgage banks.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL INFORMATION FOR 2007, 2008, 2009 AND FOR THE FOUR MONTHS ENDED APRIL 30, 2009 AND 2010**

### **Four months ended April 30, 2010 compared to the corresponding period of 2009**

*Revenue.* Revenue for the four months ended April 30, 2010 was RMB2,460 million, an increase of RMB617 million, or 33%, compared to RMB1,843 million in the corresponding period of 2009. The increase was primarily due to an increase of RMB562 million, or 33%, in our property development revenue to RMB2,280 million in the four months ended April 30, 2010 from RMB1,718 million in the corresponding period of 2009. The increase in property development revenue primarily resulted from an increase in GFA delivered of approximately 57,000 sq.m., or 34%, to approximately 224,000 sq.m. in the four months ended April 30, 2010 from approximately 167,000 sq.m. in the corresponding period of 2009 and, to a lesser extent, an increase in average selling price (excluding car parks) of RMB750 per sq.m., or 7%, to RMB11,298 per sq.m. in the four months ended April 30, 2010 from RMB10,548 per sq.m. in the corresponding period of 2009.

We set forth in the table below information relating to the type of properties for which we recognized property development revenue during the four months ended April 30, 2009 or 2010:

| Type of properties sold | Four months ended April 30, 2009 |              |                 |                 | Four months ended April 30, 2010 |              |                 |             |
|-------------------------|----------------------------------|--------------|-----------------|-----------------|----------------------------------|--------------|-----------------|-------------|
|                         | Revenue                          |              | GFA sold        |                 | Revenue                          |              | GFA sold        |             |
|                         | <i>(unaudited)</i>               |              | and delivered   |                 | <i>(unaudited)</i>               |              | and delivered   |             |
|                         | <i>RMB</i>                       | <i>% of</i>  | <i>Thousand</i> | <i>% of</i>     | <i>RMB</i>                       | <i>% of</i>  | <i>Thousand</i> | <i>% of</i> |
| <i>millions</i>         | <i>total</i>                     | <i>sq.m.</i> | <i>total</i>    | <i>millions</i> | <i>total</i>                     | <i>sq.m.</i> | <i>total</i>    |             |
| Residential             | 1,582                            | 92%          | 156             | 93%             | 1,659                            | 73%          | 153             | 68%         |
| Retail                  | 112                              | 7%           | 5               | 3%              | 133                              | 6%           | 13              | 6%          |
| Office                  | 5                                | 0%           | —               | 0%              | 354                              | 15%          | 24              | 11%         |
| Car parks               | 19                               | 1%           | 6               | 4%              | 134                              | 6%           | 34              | 15%         |
| <b>Total</b>            | <b>1,718</b>                     | <b>100%</b>  | <b>167</b>      | <b>100%</b>     | <b>2,280</b>                     | <b>100%</b>  | <b>224</b>      | <b>100%</b> |

We set forth in the table below the revenue for each project for which we recognized property development revenue during the four months ended April 30, 2009 and 2010:

| Projects                        | Four months ended     |              |
|---------------------------------|-----------------------|--------------|
|                                 | April 30,             |              |
|                                 | 2009                  | 2010         |
|                                 | <i>(RMB millions)</i> |              |
| <b>Beijing</b>                  |                       |              |
| Ocean Express                   | 19                    | —            |
| Ocean Great Harmony             | —                     | 30           |
| Ocean Honored Chateau           | —                     | 304          |
| Ocean Landscape                 | 493                   | 73           |
| Ocean Landscape Eastern Area    | —                     | 902          |
| Ocean Office Park               | —                     | 324          |
| Poetry of River Phases I and II | 734                   | 19           |
| Ocean Seasons                   | 9                     | 39           |
| <b>Tianjin</b>                  |                       |              |
| Ocean Express                   | 169                   | 30           |
| Ocean Paradise Phase I          | 2                     | 42           |
| <b>Dalian</b>                   |                       |              |
| Ocean Prospect                  | 226                   | 35           |
| Xiangsong Project               | —                     | 10           |
| <b>Shenyang</b>                 |                       |              |
| Ocean Paradise                  | —                     | 98           |
| <b>Zhongshan</b>                |                       |              |
| Ocean City                      | 47                    | 240          |
| <b>Subtotal</b>                 | <b>1,699</b>          | <b>2,146</b> |
| Car parks (various projects)    | 19                    | 134          |
| <b>Total</b>                    | <b>1,718</b>          | <b>2,280</b> |

*Cost of sales.* Cost of sales for the four months ended April 30, 2010 was RMB1,819 million, an increase of RMB551 million, or 43%, compared with RMB1,268 million in the corresponding period of 2009. The increase was primarily due to the increase in GFA sold and delivered of approximately 57,000 sq.m., or 34%, to approximately 224,000 sq.m. in the four months ended April 30, 2010 from approximately 167,000 sq.m. in the corresponding period of 2009 and to the fact that a higher proportion of GFA sold and delivered in that period of 2010 was located in Beijing where cost of sales are typically higher.

*Gross profit.* As a result of the above, gross profit for the four months ended April 30, 2010 was RMB641 million, an increase of RMB66 million, or 11%, from RMB575 million in the corresponding period of 2009. Our gross profit margin for the four months ended April 30, 2010 was 26%, compared with 31% in the corresponding period of 2009. Gross profit margin in the four months ended April 30, 2010 was lower, primarily due to the fact that a higher proportion of GFA sold and delivered in that period of 2010 related to properties in the early phases of delivery, such as Ocean Landscape Eastern Area, which typically have lower margins.

*Fair value gain on investment properties.* We had a fair value gain on investment properties in the four months ended April 30, 2010 in the amount of RMB463 million primarily because of our completion of construction and revaluation of the retail portion of Ocean Office Park, an investment property. In the corresponding period in 2009, we had zero fair value gain or loss on investment properties.

*Other gains — net.* We had net other gains in the amount of RMB4 million in the four months ended April 30, 2010 primarily as a result of exchange rate gains relating to our offshore US dollar denominated borrowings due to the appreciation of the Renminbi. By comparison, in the corresponding period of 2009, we had net other gains in the amount of RMB11 million as a result of exchange rate gains relating to our US dollar denominated offshore borrowings due to the appreciation of the Renminbi.

*Selling and marketing costs.* Selling and marketing costs for the four months ended April 30, 2010 were RMB106 million, representing an increase of RMB27 million, or 34%, from RMB79 million in the corresponding period of 2009. The increase was primarily due to increased advertising and marketing in anticipation of the launch of new projects in the second quarter of 2010.

*Administrative expenses.* Administrative expenses for the four months ended April 30, 2010 were RMB126 million, an increase of RMB5 million, or 4%, from RMB121 million in the corresponding period of 2009. The increase was primarily due to our expansion into and operation in more cities.

*Operating profit.* Operating profit for the four months ended April 30, 2010 was RMB939 million, an increase of RMB490 million, or 109%, from RMB449 million in the corresponding period of 2009. The increase in operating profit was mainly due to the fair value gain that resulted from the completion of construction and revaluation of Ocean Park, an investment property. Our operating profit margin for the four months ended April 30, 2010 was 38%, compared with 24% in the corresponding period of 2009.

*Finance costs.* In the four months ended April 30, 2010, our finance costs were RMB21 million, a decrease of RMB17 million, or 45%, from RMB38 million in the corresponding period of 2009, due to an increased proportion of our interest accrued in the four months ended April 30, 2010 being capitalized given that a greater proportion of our borrowings in such period were applied to specific projects.

*Share of losses of a jointly controlled entity and associated companies.* In the four months ended April 30, 2010 our share of losses of associated companies and a jointly controlled entity was RMB7 million, a decrease of RMB3 million, or 31%, from RMB10 million in the corresponding period of 2009.

*Profit before income tax.* As a result of the above, our profit before income tax in the four months ended April 30, 2010 was RMB911 million, an increase of RMB510 million, or 127%, from RMB401 million in the corresponding period of 2009. A substantial portion of this increase related to the fair value gain recognized on an investment property.

*Income tax expense.* Our income tax expense for the four months ended April 30, 2010 was RMB250 million, an increase of RMB66 million, or 36%, from RMB184 million in the corresponding period of 2009. The increase was due to the increase in profit before tax. Our effective income tax rate was 22% in the four months ended April 30, 2010, compared to 25% in the corresponding period in 2009. The decrease in our effective tax rate was primarily the result of reversals in the four months ended April 30, 2010 of certain provisions for taxes made in prior years that proved unnecessary.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of our Company in the four months ended April 30, 2010 was RMB657 million, an increase of RMB441 million, or 204%, from RMB216 million in the corresponding period of 2009. The increase was primarily due to the 205% increase in our profit for the period. Our profit for the period attributable to equity holders of the Company as a percentage of revenue was 27% in the four months ended April 30, 2010, compared with 12% in the corresponding period of 2009.

*Profit attributable to non-controlling interests.* Our profit attributable to non-controlling interests in the four months ended April 30, 2010 was RMB1 million, compared with zero in the corresponding period of 2009.

## 2009 compared to 2008

*Revenue.* Revenue in 2009 was RMB8,824 million, an increase of RMB2,337 million, or 36%, from RMB6,487 million in 2008. This increase was primarily due to the increase of RMB2,384 million, or 41%, in revenue from property development, to RMB8,218 million in 2009 from RMB5,834 million in 2008. The increase in revenue from property development was due to an increase of approximately 348,000 sq.m. in GFA delivered, or 67%, partially offset by a RMB2,047 per sq.m. decrease in average selling price per square meter (excluding car parks), or 17%, to RMB9,962 per sq.m. in 2009 from RMB12,009 per sq.m. in 2008. The decrease in average selling price per square meter reflected an increased proportion of both GFA delivered outside Beijing (where average selling prices tend to be lower) and GFA delivered from early phases of projects (when average selling prices tend to be lower) as well as lower contracted sales prices in 2008, most of which were recognized in revenue in 2009.

We set forth in the table below information relating to the types of properties for which we recognized property development revenue in 2008 and 2009.

| Type of properties sold and delivered | Year ended December 31, 2008 |             |                        |             | Year ended December 31, 2009 |             |                        |             |
|---------------------------------------|------------------------------|-------------|------------------------|-------------|------------------------------|-------------|------------------------|-------------|
|                                       | Revenue                      |             | GFA sold and delivered |             | Revenue                      |             | GFA sold and delivered |             |
|                                       | RMB millions                 | % of total  | Thousand sq.m.         | % of total  | RMB millions                 | % of total  | Thousand sq.m.         | % of total  |
| Residential                           | 4,884                        | 84%         | 413                    | 80%         | 7,084                        | 86%         | 735                    | 85%         |
| Retail                                | 497                          | 8%          | 28                     | 6%          | 623                          | 8%          | 38                     | 4%          |
| Office                                | 307                          | 5%          | 33                     | 6%          | 256                          | 3%          | 26                     | 3%          |
| Car parks                             | 146                          | 3%          | 43                     | 8%          | 255                          | 3%          | 66                     | 8%          |
| <b>Total</b>                          | <b>5,834</b>                 | <b>100%</b> | <b>517</b>             | <b>100%</b> | <b>8,218</b>                 | <b>100%</b> | <b>865</b>             | <b>100%</b> |



We set forth in the table below the revenue of each project for which we recognized property development revenue in 2008 and 2009.

| Projects                          | Year ended     |              |
|-----------------------------------|----------------|--------------|
|                                   | 2008           | 2009         |
|                                   | (RMB millions) |              |
| <b>Beijing</b>                    |                |              |
| Ocean Express                     | 48             | 52           |
| Ocean Great Harmony Areas A and B | —              | 1,864        |
| Ocean Honored Chateau             | —              | 837          |
| Ocean Landscape                   | 2,592          | 845          |
| Ocean Office Park                 | 777            | 109          |
| Ocean Paradise                    | 40             | —            |
| Poetry of River                   | 609            | 840          |
| Ocean Seasons                     | 351            | 100          |
| <b>Tianjin</b>                    |                |              |
| Ocean Express                     | 13             | 622          |
| Ocean Paradise Phase I            | 282            | 64           |
| <b>Dalian</b>                     |                |              |
| Ocean Prospect                    | 635            | 629          |
| Xiangsong Project                 | —              | 246          |
| <b>Shenyang</b>                   |                |              |
| Ocean Paradise                    | —              | 691          |
| <b>Zhongshan</b>                  |                |              |
| Ocean City                        | 341            | 1,064        |
| <b>Subtotal</b>                   | 5,688          | 7,963        |
| Car parks (various projects)      | 146            | 255          |
| <b>Total</b>                      | <u>5,834</u>   | <u>8,218</u> |

*Cost of sales.* Cost of sales for 2009 were RMB6,167 million, representing an increase of RMB2,500 million, or 68%, from RMB3,667 million in 2008. This increase was primarily due to an increase in GFA delivered of approximately 348,000 sq.m., or 67%, to approximately 865,000 sq.m. in 2009 from approximately 517,000 sq.m. in 2008 and an increase in the average land cost for property development in 2009 from 2008. The higher land cost was mainly due to the delivery of properties in the Ocean Great Harmony project. In addition, average construction costs (excluding car parks) for our property development business in 2009 were approximately RMB3,690 per sq.m., an increase of RMB17 per sq.m., or less than 1%, from RMB3,673 per sq.m. in 2008 as a result of increased delivery of more high end projects.

*Gross profit.* As a result of the above, gross profit for 2009 was RMB2,657 million, a decrease of RMB163 million, or 6%, from RMB2,820 million in 2008. Our gross profit margin for 2009 was 30%, compared with 43% in 2008. The decline in gross profit margin was attributable to softening sales prices for sales contracted in 2008 (which were recognized in revenue in 2009), the increased proportion of GFA delivered outside Beijing which normally has lower profit margins than in Beijing and the delivery of properties from early phases of projects, which typically have lower profit margins due to lower average selling prices for earlier phases.

*Fair value gain on investment properties.* We had a fair value gain of RMB709 million on investment properties in 2009, as compared to no fair value gain or loss in 2008. The fair value gain in 2009 related to the completion of construction and revaluation of Ocean Office Park, an investment property.

*Other income.* Our other income in 2009 was RMB211 million, a decrease of RMB4 million, or less than 2%, from RMB215 million in 2008, primarily due to a decrease in interest rates on deposits.

*Other (losses)/gains — net.* In 2009, we had net other losses in the amount of RMB8 million, primarily due to exchange loss incurred from our deposits held in bank accounts offshore. By comparison, we had net other gains in 2008 in the amount of RMB127 million, primarily due to a RMB78 million gain from early redemption of convertible bonds.

*Selling and marketing costs.* Selling and marketing costs for 2009 were RMB319 million, an increase of RMB68 million, or 27%, from RMB251 million in 2008. This increase was due, in part, to our efforts in increasing the size of our sales force in order to promote our projects available for sale to potential buyers in 2009.

*Administrative expenses.* Administrative expenses for 2009 were RMB320 million, a decrease of RMB100 million, or 24%, from RMB420 million in 2008. This decrease was due in part to our implementation of cost control measures and the decrease in amortization of share options of RMB66 million, or 59%, to RMB45 million in 2009 from RMB111 million in 2008. Administrative expenses amounted to only 4% of revenue in 2009, as compared to 7% in 2008.

*Operating profit.* As a result of the above, our operating profit for 2009 was RMB2,930 million, an increase of RMB439 million, or 18%, from RMB2,491 million in 2008. Our operating profit margin for 2009 was 33%, compared with 38% in 2008.

*Finance costs.* In 2009, our finance costs were RMB309 million, an increase of RMB148 million, or 92%, from RMB161 million in 2008, primarily due to an increase in total borrowings, partially offset by a decline in the weighted average interest rates of our borrowings. Our total borrowings increased in 2009 due, in large part, to the USD700 million offshore loan facility we entered into in September 2009.

*Share of losses of a jointly controlled entity and associated companies.* In 2009 we had a share of losses of jointly controlled and associated companies in the amount of RMB54 million, as compared to RMB2 million in 2008.

*Profit before income tax.* As a result of the above, our profit before income tax in 2009 was RMB2,567 million, an increase of RMB183 million, or 8%, from RMB2,384 million in 2008.

*Income tax expense.* Our income tax expense for 2009 was RMB929 million, a decrease of RMB10 million, or 1%, from RMB939 million in 2008. Our effective income tax rate was 27% in 2009, compared to 22% in 2008. The increase in our effective income tax rate was primarily due to the imposition by the PRC of a requirement to withhold tax on dividends beginning in 2009.

*Profit attributable to equity holders of our Company.* As a result of the above, our profit attributable to equity holders of our Company in 2009 was RMB1,582 million, an increase of RMB194 million, or 14%, from RMB1,388 million in 2008. Our profit attributable to equity holders of our Company as a percentage of revenue was 18% in 2009 and 21% in 2008.

*Profit attributable to non-controlling interests.* Our profit attributable to non-controlling interests was RMB56 million in 2009, a decrease of RMB1 million, or less than 2%, from RMB57 million in 2008.

## **2008 compared to 2007**

*Revenue.* Revenue in 2008 was RMB6,487 million, an increase of RMB737 million, or 13%, compared to RMB5,750 million in 2007. This increase was primarily due to an increase of RMB403 million, or 7%, in revenue from property development from 2008. The increase in revenue from property development was primarily due to an increase in average selling price of RMB3,270 per sq.m., or 41%, to RMB11,279 per sq.m. in 2008 from RMB8,009 per sq.m. in 2007, offset by a decrease in GFA delivered of approximately 160,000 sq.m., or 24%, to approximately 517,000 sq.m. in 2008 from approximately 677,000 sq.m. in 2007.

We set forth in the table below information relating to the types of properties for which we recognized project development revenue in 2007 and 2008.

| Type of properties sold  | Year ended December 31, 2007 |            |                        |            | Year ended December 31, 2008 |            |                        |            |
|--------------------------|------------------------------|------------|------------------------|------------|------------------------------|------------|------------------------|------------|
|                          | Revenue                      |            | GFA sold and delivered |            | Revenue                      |            | GFA sold and delivered |            |
|                          | RMB millions                 | % of total | Thousand sq.m.         | % of total | RMB millions                 | % of total | Thousand sq.m.         | % of total |
| Residential              | 4,922                        | 91         | 637                    | 94         | 4,884                        | 84         | 413                    | 80         |
| Retail                   | 311                          | 5          | 18                     | 3          | 497                          | 8          | 28                     | 5          |
| Office                   | 198                          | 4          | 22                     | 3          | 307                          | 5          | 32                     | 6          |
| Car parks <sup>(1)</sup> | —                            | —          | —                      | —          | 146                          | 3          | 44                     | 9          |
| <b>Total</b>             | <b>5,431</b>                 | <b>100</b> | <b>677</b>             | <b>100</b> | <b>5,834</b>                 | <b>100</b> | <b>517</b>             | <b>100</b> |

Note:

- (1) Beginning in 2008, we began to separately track car parks as a type of property. Prior to 2008, car park data was included in residential, retail or office, depending on which type of property they served.

We set forth in the table below revenue of each project for which we recognised project development revenue in 2007 and 2008:

| Projects                     | Year ended December 31, |              |
|------------------------------|-------------------------|--------------|
|                              | 2007 <sup>(1)</sup>     | 2008         |
|                              | <i>(RMB millions)</i>   |              |
| <b>Beijing</b>               |                         |              |
| Ocean Cityscape              | 22                      | —            |
| Ocean Express                | 200                     | 48           |
| Ocean Landscape              | 2,396                   | 2,592        |
| Ocean Office Park            | —                       | 777          |
| Ocean Paradise               | 611                     | 40           |
| Poetry of River Phase I      | —                       | 609          |
| Ocean Seasons                | 1,002                   | 351          |
| <b>Tianjin</b>               |                         |              |
| Ocean Express                | —                       | 13           |
| Ocean Paradise Phase I       | 1,194                   | 282          |
| <b>Dalian</b>                |                         |              |
| Ocean Prospect               | —                       | 635          |
| <b>Zhongshan</b>             |                         |              |
| Ocean City                   | —                       | 341          |
| <b>Subtotal</b>              | <b>5,431</b>            | <b>5,688</b> |
| Car parks (various projects) | —                       | 146          |
| <b>Total</b>                 | <b>5,431</b>            | <b>5,834</b> |

Note:

- (1) Beginning in 2008, we began to separately track car parks as a type of property. Because of this, 2007 data for projects in this table include revenue from car parks.

*Cost of sales.* Cost of sales for 2008 was RMB3,667 million, a decrease of RMB176 million, or 5%, compared to RMB3,843 million in 2007. This decrease was primarily caused by an increase in land and construction costs, which accounted for 75% of the total cost of sales in 2008, as compared with 86% in 2007, and an increase in business tax, which accounted for 8% of the total cost of sales in 2008, as compared with 7% in 2007.

*Gross profit.* As a result of the above, gross profit for 2008 was RMB2,820 million, an increase of RMB913 million, or 48%, from RMB1,907 million in 2007. Our gross profit margin for 2008 was 43%, compared with 33% in 2007.

*Fair value gain/(loss) on investment properties.* We had zero fair value gain or loss on investment properties in 2008, compared with a gain of RMB418 million in 2007, which was the result of a one-off gain on disposal of a jointly controlled entity from our disposal of our equity interest in Shing Wing International, which indirectly held a 50% interest in Chemsunny World Trade Center.

*Other income.* Our other income in 2008 was RMB215 million, representing a decrease of RMB144 million, or 40%, from RMB359 million in 2007, primarily due to a decrease in interest income of RMB141 million, or 44%, to RMB180 million in 2008 from RMB321 million in 2007. The decrease in interest income was primarily due to the inclusion in 2007 of interest income generated from the interest earned on oversubscription monies temporarily held by us in connection with our IPO in September 2007.

*Other (losses)/gains — net.* In 2008, we had net other gains in the amount of RMB127 million, compared with net other losses in the amount of RMB28 million in 2007, primarily due to a gain from early redemption of convertible bonds of RMB78 million in 2008, and an exchange loss of RMB52 million, or 74%, to RMB18 million in 2008 from RMB70 million in 2007.

*Selling and marketing costs.* Selling and marketing costs for 2008 were RMB251 million, an increase of RMB122 million, or 95%, from RMB129 million in 2007. This increase was primarily caused by the launch of pre-sales for more projects in 2008. Selling and marketing expense amounted to 4% of revenue in 2008, as compared with 2% in 2007.

*Administrative expenses.* Administrative expenses for 2008 were RMB420 million, an increase of RMB118 million, or 39%, from RMB302 million in 2007. This increase was due, in part, to an increase in the number of employees in 2008 and an increase in amortization of share options in remuneration of staff of approximately RMB83 million, or 296%, to approximately RMB111 million in 2008 from approximately RMB28 million in 2007.

*Operating profit.* As a result of the above, our operating profit for 2008 was RMB2,491 million, a decrease of RMB644 million, or 21%, from RMB3,135 million in 2007. Our operating profit margin for 2008 was 38%, compared with 55% in 2007. The decrease in operating profit margin was primarily caused by the fact that there was zero fair value gain on investment properties and a one-off gain on disposal of a jointly controlled entity in 2008 compared to 2007.

*Finance costs.* In 2008, our finance costs were RMB161 million, a decrease of RMB53 million, or 25%, from RMB214 million in 2007 due to an increase in interest expenses of RMB481 million, or 81%, to RMB1,073 million in 2008 from RMB592 million in 2007, partially offset by an increase of capitalized interest of RMB534 million, or 141%, to RMB912 million in 2008 from RMB378 million in 2007.

*Share of losses of a jointly controlled entity and associated companies.* We had a share of losses of jointly controlled and associated companies in 2008 in the amount of RMB2 million. By comparison, in 2007 we had a share of losses of a jointly controlled entity and associated companies of RMB15 million.

*Profit before income tax.* As a result of the above, our profit before income tax in 2008 was RMB2,384 million, a decrease of RMB473 million, or 17%, from RMB2,857 million in 2007.

*Income tax expense.* Our income tax for 2008 was RMB939 million, a decrease of RMB126 million, or 12%, from RMB1,065 million in 2007. The decrease in income tax expense was primarily caused by the change in statutory income tax rate to 25% in 2008 from 33% in 2007 and previous years.

*Profit attributable to equity holders of our Company.* As a result of the above, our profit attributable to equity holders of our Company in 2008 was RMB1,388 million, representing a decrease of RMB334 million, or 19%, from RMB1,722 million in 2007. Our profit for the year attributable to equity holders of our Company as a percentage of revenue was 21% in 2008 and 30% in 2007. This decrease was consistent with the decrease in profit for the year.

*Profit attributable to non-controlling interests.* Our profit attributable to non-controlling interests was RMB57 million in 2008, representing a decrease of RMB13 million, or 19%, from RMB70 million in 2007. This decrease was consistent with the decrease in profit for the year.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our primary uses of cash are to pay for land acquisition costs, construction costs and finance costs and to fund working capital and normal recurring expenses. To date we have funded our growth principally from internally generated cash flows, including proceeds from the sales and pre-sales of our properties, bank loans and proceeds from our IPO, a bond issuance, a share placement and, prior to our IPO, shareholder contributions. Going forward, we believe our liquidity requirements will be satisfied using a combination of bank loans, cash provided by operating activities, including proceeds from the sales and pre-sales of our properties, and other funds raised from the capital markets from time to time.

### **Net current assets**

As at April 30, 2010, we had net current assets of approximately RMB41,114 million. Our current assets were mainly comprised of properties under development of RMB25,130 million, deposits for land use rights of RMB19,420 million and cash and cash equivalents of RMB12,808 million and other items of RMB7,547 million. Our current liabilities were mainly comprised of advanced proceeds from customers of RMB12,262 million, interest bearing borrowings of RMB6,243 million and trade and other payables of RMB3,794 million.

The following table presents selected cash flow data from our consolidated cash flow statements for the three years ended December 31, 2007, 2008, 2009 and the four months ended April 30, 2010.

|  | Year ended December 31, |         |         | Four months ended April 30, |          |
|--|-------------------------|---------|---------|-----------------------------|----------|
|  | 2007                    | 2008    | 2009    | 2009                        | 2010     |
|  | <i>(RMB millions)</i>   |         |         |                             |          |
|  | <i>(audited)</i>        |         |         | <i>(unaudited)</i>          |          |
| Net cash (used in)/generated from operating activities | (8,949)                 | (2,791) | (508)   | 1,103                       | (11,187) |
| Net cash generated from/(used in) investing activities | 105                     | (493)   | (1,550) | (552)                       | (88)     |
| Net cash generated from financing activities           | 14,772                  | 2,889   | 11,662  | 1,094                       | 6,462    |
| Net increase/(decrease) in cash and cash equivalents   | 5,928                   | (395)   | 9,604   | 1,645                       | (4,813)  |
| Cash and cash equivalents at end of the period         | 8,469                   | 8,027   | 17,620  | 9,672                       | 12,808   |

#### ***Cash flow from operating activities***

We derive our cash inflow from operations principally from the pre-sale and sale of properties, rental of investment properties and cash from our other activities. Our cash outflow from operations is principally for investments in property under development.

In the four months ended April 30, 2010, we had net cash used in operating activities in the amount of approximately RMB11,187 million. This was principally a result of cash paid for new land bank.

In 2009, we had net cash used in operating activities in the amount of approximately RMB508 million. This was primarily a result of cash paid for new land bank, partially offset by cash inflow from contracted sales made in 2008.

In 2008, we had net cash used in operating activities in the amount of approximately RMB2,791 million. This was primarily a result of maintaining our construction schedule, despite financial turmoil, to prepare for future contracted sales in 2009. This led to an increase in properties under development and completed properties held for sale.

In 2007, we had net cash used in operating activities in the amount of approximately RMB8,949 million. This was primarily a result of cash used to replenish our land bank with 4.7 million sq.m. in GFA, leading to an increase in land use rights, properties under development and deposits for land use rights.

#### ***Cash flow from investing activities***

Our investing activities mainly comprise investments in property, plant and equipment, investment property, and acquisitions of interests in subsidiaries.

In the four months ended April 30, 2010, we had net cash used in investing activities in the amount of approximately RMB88 million. This was primarily a result of the completion of our acquisition of the entire equity interest in Sky Charter Development Limited, which previously held a 30% interest in our Canal Commercial District project in Hangzhou.

In 2009, we had net cash used in investing activities in the amount of RMB1,550 million. This was primarily as a result of cash used to acquire equity interests in our subsidiaries from minority shareholders.

In 2008, we had net cash used in investing activities in the amount of RMB493 million, primarily as a result of the purchase of available-for-sale securities by an investment fund subsidiary.

In 2007, we had net cash generated from investing activities in the amount of RMB105 million, primarily as a result of disposal of a jointly controlled entity.

#### *Cash flow from financing activities*

Our financing activities consist primarily of borrowings, capital raising, shareholders' contributions and dividend distributions.

In the four months ended April 30, 2010, we had net cash generated from financing activities in the amount of approximately RMB6,462 million. This was primarily as a result of an increase in bank borrowings.

In 2009, we had net cash generated from financing activities in the amount of RMB11,662 million. This was primarily as a result of an increase in bank borrowings, including the September 2009 USD700 million offshore loan facility, the June 2009 issuance of approximately RMB2.6 billion in corporate bonds and the December 2009 placement of approximately HKD5.8 billion of shares to China Life.

In 2008, we had net cash generated from financing activities in the amount of RMB2,889 million. This was primarily as a result of an increase in net bank borrowings.

In 2007, we had net cash generated from financing activities in the amount of RMB14,772 million. This was primarily as a result of an increase of net bank borrowings and the proceeds of our September 2007 IPO.

## INDEBTEDNESS AND CONTINGENT LIABILITIES

### Bank and other borrowings

Our bank and other borrowings as at December 31, 2007, 2008 and 2009 and April 30, 2010 are set forth below:

|   | As at December 31,    |                  |               | As at              |
|---|-----------------------|------------------|---------------|--------------------|
|   | 2007                  | 2008             | 2009          | April 30,          |
|   | <i>(RMB millions)</i> |                  |               | 2010               |
|   |                       | <i>(audited)</i> |               | <i>(unaudited)</i> |
| Short-term bank borrowings (including current portion of long-term bank borrowings) | 3,281                 | 5,155            | 4,653         | 6,143              |
| Long-term bank borrowings (excluding current portion of long-term bank borrowings)  | 6,408                 | 8,779            | 14,608        | 17,385             |
| <b>Total bank borrowings</b>  | <u>9,689</u>          | <u>13,934</u>    | <u>19,261</u> | <u>23,528</u>      |
| Short-term other borrowings   | —                     | 810              | —             | 100                |
| Long-term other borrowings  | 1,595                 | —                | 2,579         | 4,980              |
| <b>Total other borrowings</b>   | <u>1,595</u>          | <u>810</u>       | <u>2,579</u>  | <u>5,080</u>       |
| <b>Total borrowings</b>   | <u>11,284</u>         | <u>14,744</u>    | <u>21,840</u> | <u>28,608</u>      |

As at December 31, 2007, 2008 and 2009 and April 30, 2010, RMB8,003 million, RMB8,789 million, RMB17,187 million and RMB1,450 million in long-term borrowings and RMB3,281 million, RMB5,965 million, RMB4,653 million and RMB1,550 million short-term borrowings were guaranteed by related parties, respectively.

The maturities of our total borrowings at the respective balance sheet dates are set out as follows:

|                              | As at December 31,    |                  |               | As at              |
|------------------------------|-----------------------|------------------|---------------|--------------------|
|                              | 2007                  | 2008             | 2009          | April 30,          |
|                              | <i>(RMB millions)</i> |                  |               | 2010               |
|                              |                       | <i>(audited)</i> |               | <i>(unaudited)</i> |
| <b>Total borrowings</b>      |                       |                  |               |                    |
| — Within one year            | 3,281                 | 5,965            | 4,653         | 6,243              |
| — Between one and two years  | 6,403                 | 5,783            | 7,019         | 8,817              |
| — Between two and five years | 400                   | 1,796            | 6,359         | 11,518             |
| More than 5 years            | 1,200                 | 1,200            | 3,809         | 2,030              |
| <b>Total borrowings</b>      | <u>11,284</u>         | <u>14,744</u>    | <u>21,840</u> | <u>28,608</u>      |



The weighted average effective interest rates at the respective balance sheet dates are set out as follows:

|                         | Year ended December 31, |       |       | Four months ended April 30, |
|-------------------------|-------------------------|-------|-------|-----------------------------|
|                         | 2007                    | 2008  | 2009  | 2010                        |
| <b>Bank borrowings</b>  |                         |       |       |                             |
| — RMB                   | 6.99%                   | 7.69% | 5.40% | 4.82%                       |
| <b>Other borrowings</b> |                         |       |       |                             |
| — RMB                   | 7.90%                   | 5.91% | 4.40% | 4.92%                       |

As at April 30, 2010, we had unutilized credit facilities available of approximately RMB12,800 million.

As at April 30, 2010, other borrowings included approximately RMB 2.6 billion in principal amount of 4.4% bonds that will mature in 2016.

Our gearing ratio, calculated as total debt less cash and cash equivalents and restricted bank deposits divided by total shareholders equity, as at December 31, 2007, 2008, 2009 and April 30, 2010 was 12%, 35%, 14% and 63%, respectively.

#### **Financial guarantees**

In the normal course of our business, we enter into agreements with commercial banks with respect to mortgage facilities granted by commercial banks to our property purchasers, under which we guarantee the full value of the mortgages. Pursuant to the terms of the guarantees, upon a default in mortgage payments by these purchasers, we are responsible to repay the outstanding mortgage principal together with accrued interest and any penalty, and we are entitled to take over the legal title and possession of the related properties. For most mortgages, guarantees will be released when the property title deeds are passed to the banks as security for the respective mortgage loans, which generally takes place within one to two years after the property units are delivered to the buyers. The following table sets forth our financial guarantees as at December 31, 2007, 2008 and 2009, and April 30, 2010.

|   | As at December 31,    |       |       | As at April 30,    |
|---|-----------------------|-------|-------|--------------------|
|   | 2007                  | 2008  | 2009  | 2010               |
|   | <i>(RMB millions)</i> |       |       | <i>(unaudited)</i> |
| Guarantees in respect of mortgage facilities for certain purchasers | 1,732                 | 1,544 | 1,812 | 2,145              |

The following table sets forth the provisions that we made for our financial guarantees in 2007, 2008, 2009 and the four months ended April 30, 2010.

|                                    | <b>Year ended December 31,</b> |                  |                  | <b>Four<br/>months<br/>ended<br/>April 30,</b> |
|------------------------------------|--------------------------------|------------------|------------------|--|
|                                    | <b>2007</b>                    | <b>2008</b>      | <b>2009</b>      | <b>2010</b>                                    |
|                                    | <i>(RMB millions)</i>          |                  |                  |  |
|                                    |                                |                  |                  | <i>(unaudited)</i>                             |
| Opening balance                    | 33                             | 66               | 40               | 61   |
| Net charge/(credit) for the period | <u>33</u>                      | <u>(26)</u>      | <u>21</u>        | <u>—</u>                                       |
| Ending balance                     | <u><u>66</u></u>               | <u><u>40</u></u> | <u><u>61</u></u> | <u><u>61</u></u>                               |

See also “Risk Factors — Risks Relating to our Business — We do not conduct independent credit checks when guaranteeing mortgages taken out by our customers. If a significant number of such guarantees are called upon, our financial conditions could be adversely affected”.

#### **Commitments and contingent liabilities**

*Commitments.* Commitments for land acquisition and construction costs contracted for at balance sheet dates but not yet incurred were as follows:

|                                 | <b>As at December 31,</b> |                      |                     | <b>As at<br/>April 30,</b> |
|---------------------------------|---------------------------|----------------------|---------------------|----------------------------|
|                                 | <b>2007</b>               | <b>2008</b>          | <b>2009</b>         | <b>2010</b>                |
|                                 | <i>(RMB millions)</i>     |                      |                     |                            |
|                                 | <i>(audited)</i>          |                      |                     | <i>(unaudited)</i>         |
| Contracted but not provided for |                           |                      |                     |                            |
| Land use rights                 | 5,432                     | 4,912                | 345                 | 2,204                      |
| Properties under development    | <u>4,801</u>              | <u>5,492</u>         | <u>6,844</u>        | <u>7,339</u>               |
| <b>Total</b>                    | <u><u>10,233</u></u>      | <u><u>10,404</u></u> | <u><u>7,189</u></u> | <u><u>9,543</u></u>        |

#### ***Warranty against defects in properties***

We provide purchasers of our properties with terms varying from one to two years against certain defects as stipulated in PRC laws and regulations. We also get corresponding warranties from the contractors who have constructed the relevant properties.

#### ***Legal contingencies***

In the normal course of business, we are involved in lawsuits and other proceedings. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, we believe that no liabilities resulting from these proceedings will have a material adverse effect on our financial position, liquidity, or results of operations.

#### ***Off-balance sheet arrangements***

As at April 30, 2010, and the date of this Offering Circular, we did not have any off-balance sheet arrangements with unconsolidated entities.

## No other outstanding indebtedness

Except as disclosed in this Offering Circular, we did not have bank overdrafts, liabilities under acceptances, hire purchase commitments and other outstanding indebtedness as at December 31, 2009 or April 30, 2010.

## CAPITAL EXPENDITURES

The following table sets forth our capital expenditures by business segment in the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010.

| Business segment     | Year ended December 31, |                  |                  | Four months ended  |
|----------------------|-------------------------|------------------|------------------|--------------------|
|                      | 2007                    | 2008             | 2009             | April 30, 2010     |
|                      | <i>(RMB millions)</i>   |                  |                  |                    |
|                      | <i>(audited)</i>        |                  |                  | <i>(unaudited)</i> |
| Property development | 780                     | 7                | 29               | 110                |
| Property investment  | —                       | —                | 1                | —                  |
| Others               | <u>2</u>                | <u>25</u>        | <u>15</u>        | <u>5</u>           |
| <b>Total</b>         | <u><u>782</u></u>       | <u><u>32</u></u> | <u><u>45</u></u> | <u><u>115</u></u>  |

The capital expenditure as disclosed does not include land acquisition costs. Land use rights for property under development are included as current assets in our consolidated financial statements. Therefore, they do not meet the definition of capital expenditure, which refers to the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment and intangible assets) under Hong Kong Accounting Standard 1.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

### Interest rate risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt. Our cash flow interest rate risk arises from long-term borrowings with floating interest rates. Such risk is partially offset by cash held at prevailing market interest rates. During 2008 and 2009, our borrowings at floating interest rates were denominated in RMB, HKD and USD. Our fair value interest rate risk relates primarily to our fixed rate borrowings and other payables. We do not currently use any derivative instruments to manage our interest rate risks. More details on our interest rate risk is set forth in Note 4.1(a)(ii) to our audited consolidated financial statements for the year ended December 31, 2009 included in this Offering Circular.

### Foreign exchange risk

We conduct our business primarily in Renminbi. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates. A depreciation of the Renminbi would adversely affect the value of any dividends we pay to investors outside the PRC and would also result

in an increase in the price of goods with imported content which we source from our suppliers. An appreciation of the Renminbi, however, would adversely affect the value of proceeds we receive from the offering of the Securities and any subsequent overseas equity or debt offering if they are not converted into Renminbi in a timely manner. Please see “Risk Factors — Risks Relating to Business Operations in the PRC — We are subject to risks presented by fluctuations in foreign currencies” for more details.

### **Inflation risk**

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the China Statistical Bureau.

China’s overall national inflation rate, as represented by the general consumer price index, increased by approximately 4.8% in the year ended December 31, 2007, increased by approximately 5.9% in the year ended December 31, 2008 and decreased by approximately 0.7% in the year ended December 31, 2009. We cannot make any assurance that we will not be adversely affected by inflation or deflation in China in the future.

## INDUSTRY OVERVIEW

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

### THE ECONOMY OF THE PRC

Over the last 25 years, the PRC government has introduced reforms that have transformed the PRC economy from a centrally planned system into a more liberalized market economy. The significant economic development that has resulted from such reforms has been accelerated by China's accession to the World Trade Organisation in 2001. China has experienced average annual GDP growth rate of approximately 9.8% from 2000 to 2009.

The table below sets forth selected PRC economic statistics for the years indicated<sup>(1)</sup>:

|  | 2000  | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2000-2009 CAGR <sup>(2)</sup> (%) |
|--|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----------------------------------|
| Population (million)                         | 1,267 | 1,276  | 1,285  | 1,292  | 1,300  | 1,308  | 1,314  | 1,321  | 1,328  | 1,335  | 0.6                               |
| Nominal GDP (RMB billion)                    | 9,921 | 10,966 | 12,033 | 13,582 | 15,988 | 18,322 | 21,192 | 25,731 | 30,067 | 33,535 | 14.5                              |
| Real GDP growth (%)                          | 8.4   | 8.3    | 9.1    | 10.0   | 10.1   | 10.4   | 11.6   | 13.0   | 9.0    | 8.7    | N/A                               |
| GDP per capita (RMB)                         | 7,858 | 8,622  | 9,398  | 10,542 | 12,336 | 14,053 | 16,165 | 19,524 | 22,698 | 25,125 | 13.8                              |
| CPI growth (%)                               | 0.4   | 0.7    | -0.8   | 1.2    | 3.9    | 1.8    | 1.5    | 4.8    | 5.9    | -0.7   | N/A                               |
| Urban population (million)                   | 459.1 | 480.6  | 502.1  | 523.8  | 542.8  | 562.1  | 577.1  | 593.8  | 606.7  | 621.9  | 3.4                               |
| Urbanization <sup>(3)</sup> (%)              | 36.2  | 37.7   | 39.1   | 40.5   | 41.8   | 43.0   | 43.9   | 44.9   | 45.7   | 46.6   | N/A                               |
| Unemployment rate (%)                        | 3.1   | 3.6    | 4.0    | 4.3    | 4.2    | 4.2    | 4.1    | 4.0    | 4.2    | 4.3    | N/A                               |
| Per capita disposable income (RMB)           | 6,280 | 6,860  | 7,703  | 8,472  | 9,422  | 10,493 | 11,759 | 13,786 | 15,781 | 17,175 | 11.8                              |
| Retail sales of consumer goods (RMB billion) | 3,911 | 4,306  | 4,814  | 5,252  | 5,950  | 6,718  | 7,641  | 8,921  | 10,849 | 12,534 | 13.8                              |
| Foreign direct investment (US\$ billion)     | 40.7  | 46.9   | 52.7   | 53.5   | 60.6   | 60.3   | 69.5   | 74.8   | 92.4   | 90.0   | 9.2                               |
| Fixed asset investment (RMB billion)         | 3,292 | 3,721  | 4,350  | 5,557  | 7,048  | 8,877  | 11,000 | 13,732 | 17,283 | 22,485 | 23.8                              |
| Real estate investment (RMB billion)         | 498   | 634    | 779    | 1,015  | 1,316  | 1,591  | 1,942  | 2,529  | 3,120  | 3,623  | 24.7                              |

Source: China Statistical Yearbooks, 2001 — 2009  
2009 China National Economy and Social Development Statistical Communique

Notes:

- (1) Some figures have been revised in accordance with China Statistics Yearbook 2009.
- (2) CAGR refers to compound annual growth rate.
- (3) Urbanization denotes the proportion of the total population residing in urban areas.

Housing reforms, together with the economic growth of China, emergence of the mortgage lending market and increasing urbanization rate, are key factors affecting the real estate market in China and its growth. These and other government housing reform measures will continue to encourage private housing ownership in China. According to the National Bureau of Statistics of China, China's urbanization rate rose from approximately 29% in 1995 to approximately 46% in 2008. Increases in the urban population of China will likely result in increases in demand for residential properties.

The table below shows data regarding China's urbanization for the periods indicated.

|                             | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total population (millions) | 1,300       | 1,308       | 1,315       | 1,321       | 1,328       | 1,335       |
| Urban population (millions) | 543         | 562         | 577         | 594         | 607         | 622         |
| Urbanization rate (%)       | 42          | 43          | 44          | 45          | 46          | 47          |

*Source:* China Statistical Yearbooks: 2001-2009  
2009 China National Economy and Social Development Statistical Communique

## **PRC PROPERTY MARKETS**

Reform of the PRC property market did not commence until the 1990s. Prior to such reform, the PRC real estate development industry was part of the nation's centrally planned economy. In the 1990s, the PRC government initiated the housing reform and, as a result, the real estate and housing sector of China began its transition to a market-based system.

In 1988, the PRC government amended the national constitution to permit the transfer of state-owned land use rights and, in 1992, sales of formerly public housing commenced in major cities. Two years later, in 1994, the PRC government implemented further reforms and established an employer/employee-funded housing fund and issued a regulation regarding pre-sale of commodity housing in cities. In 1995, the PRC government issued regulations regarding the transfer of real estate, established a regulatory framework for real estate sales and subsequently abolished the state-allocated housing policy in 1998. In 1999, the PRC government extended the maximum mortgage term to 30 years and formalized procedures for the sale of real estate in the secondary market.

The PRC government issued regulations to standardize the quality of construction projects in 2000, establishing a framework for administering construction quality. In 2002, the PRC government promulgated rules to require that state-owned land use rights be granted by way of tender, auction and listing-for-sale and eliminated the dual system for domestic and overseas home buyers in China. In 2003, the PRC government promulgated rules to require more stringent administration of real estate financing for the purpose of reducing credit and systemic risks associated with such financing.

From 2004 to the first half of 2008, in order to prevent the overheating of the PRC economy and to achieve balanced and sustainable economic growth, the PRC government took measures to control money supply, credit availability and fixed assets investment. The PRC government also took measures to discourage speculation in the residential property market and to increase the supply of affordable housing rather than high-end residential properties. In response to concerns over the scale of the increase in property investment, the PRC government introduced policies and measures to restrict such increases as explained in "Regulation".

### *Commodity Property Sales*

Demand for real estate in China has steadily increased over the years. According to the National Bureau of Statistics of China, the total revenue from real property sales in China increased from approximately RMB 251.3 billion in 1998 to approximately RMB 2,407.1 billion in 2008. During the same period, the total GFA sold in China increased from approximately 121.9 million sq.m. in 1998 to approximately 620.9 million sq.m. in 2008. Of the 620.9 million sq.m. of aggregate GFA sold in 2008, approximately 558.9 million sq.m. were residential properties, representing a decrease of approximately 20.3% from 2007.

The average price of commodity properties sold in China increased from RMB 2,778.0 per sq.m. in 2004 to RMB 3,877.0 per sq.m. in 2008, while the average price of residential properties sold increased from RMB 2,608.0 per sq.m. to RMB 3,655.0 per sq.m. during the same period. The average price of commodity properties sold in China in 2008 was calculated by dividing total sales proceeds by the total GFA sold.

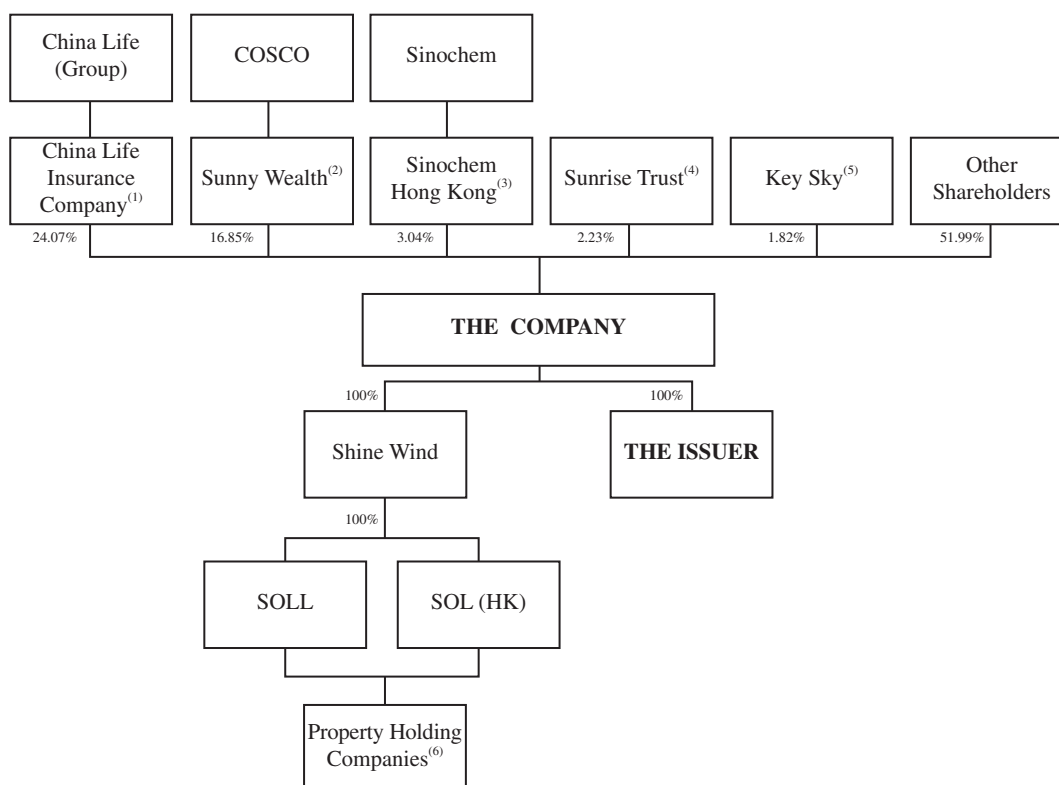
The table below sets out selected statistics relating to the PRC property market for the years indicated.

|   | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Real estate investment (RMB billion)                            | 1,315.8     | 1,590.9     | 1,942.3     | 2,528.0     | 3,058.0     |
| Total GFA sold (million sq.m.)                                  | 382.3       | 554.9       | 618.6       | 761.9       | 620.9       |
| GFA of residential properties sold<br>(million sq.m.)           | 338.2       | 495.9       | 554.2       | 691.0       | 558.9       |
| Average price of commodity properties<br>(RMB/sq.m.)            | 2,778.0     | 3,168.0     | 3,367.0     | 3,885.0     | 3,877.0     |
| Average price of residential properties<br>(RMB/sq.m.)          | 2,608.0     | 2,937.0     | 3,119.0     | 3,665.0     | 3,655.0     |
| Total sales revenue for commodity<br>properties (RMB billion)   | 1,037.6     | 1,757.6     | 2,082.6     | 2,960.4     | 2,407.1     |
| Total sales revenue for residential<br>properties (RMB billion) | 861.9       | 1,456.4     | 1,728.8     | 2,532.4     | 2,042.4     |

*Source:* National Bureau of Statistics of China, 2004-2009

## CORPORATE STRUCTURE

The following illustrates a summary of our corporate structure, including a number of our significant projects:



Notes:

- (1) The China Life Insurance Company Limited (“China Life Insurance Company”) is an indirect subsidiary of China Life Insurance (Group) Limited (“China Life (Group)”).
- (2) Sunny Wealth Investments Limited (“Sunny Wealth”) is an indirect subsidiary of China Ocean Shipping (Group) Company (“COSCO”).
- (3) Sinochem Hong Kong (Group) Company Limited (“Sinochem Hong Kong”) is indirectly wholly owned by Sinochem Corporation (Sinochem”).
- (4) The Sunrise Trust (“Sunrise Trust”) is a discretionary trust of which Mr. Li Ming is founder.
- (5) Mr. Wang Xiaoguang has a 50% equity interest in Key Sky Group Limited (“Key Sky”).
- (6) Details of property holding companies:

|   | Name of Company(ies) Involved   | Name of Project                      | Holding % |
|---|---|--------------------------------------|-----------|
| 1 | 遠洋地產有限公司 (Sino Ocean Land Limited)                                      | 遠洋萬和城 (Ocean Great Harmony)          | 100%      |
| 2 | 遠洋地產有限公司 (Sino Ocean Land Limited)                                      | 遠洋沁山水 (Ocean Landscape Eastern Area) | 100%      |
| 3 | 北京中聯置地房地產開發有限公司 (Beijing Zhonglian Real Estate Development Co., Ltd.)   | 遠洋一方 (Poetry of River)               | 100%      |
| 4 | 北京遠河房地產開發有限公司 (Beijing Yuan He Real Estate Development Company Limited) | 通州玉橋項目 (Tongzhou Yuqiao Project)     | 100%      |



|    | <b>Name of Company(ies) Involved</b>  | <b>Name of Project</b>            | <b>Holding %</b> |
|----|---|-----------------------------------|------------------|
| 5  | 北京中聯置地房地產開發有限公司 (Beijing Zhonglian Real Estate Development Co., Ltd.)   | 遠洋一方東區 (Poetry of River East)     | 100%             |
| 6  | 北京遠盛置業有限公司 (Beijing Yuan Sheng Real Estate Co., Ltd.)   | 亦莊三羊 (Yizhuang Sanyang)           | 100%             |
| 7  | 天津普利達房地產建設開發有限公司 (Tianjin Pulida Real Estate Construction and Development Company Limited)  | 遠洋城 (Ocean City)                  | 100%             |
| 8  | 天津市遠濱房地產開發有限公司 (Tianjin Yuan-bin Real Estate Development Company Limited)   | 遠洋新幹綫 (Ocean Express)             | 97%              |
| 9  | 天津市遠馳房地產開發有限公司 (Tianjin Yuan-chi Real Estate Development Company Limited)   | 遠洋天地 (Ocean Paradise)             | 97%              |
| 10 | 勛業(大連)置業有限公司 (Shining (DL) Real Estate Co., Ltd.)   | 遠洋風景 (Ocean Prospect)             | 100%             |
| 11 | 大連正乾置業有限公司、大連明遠置業有限公司 (Dalian Sky-Upright Property Limited, Dalian Sunny Ocean Property Limited)  | 紅星海世界觀 (Ocean Worldview)          | 100%             |
| 12 | 大連凱盟房地產開發有限公司 (Dalian Kai Meng Real Estate Development Co., Ltd.)   | 香頌花城項目 (Xiangsong Project)        | 100%             |
| 13 | 勛業(大連)置業有限公司 (Shining (DL) Real Estate Co., Ltd.)   | 遠洋自然 (Ocean Seasons)              | 100%             |
| 14 | 杭州遠洋天祺置業有限公司、杭州遠洋新河酒店置業有限公司、杭州遠洋運河商務區開發有限公司 (Hangzhou Yuanyang Tianqi Property Company Limited, Hanzhou Yuanyang Xinhe Hotel Property Company Limited, Hongzhou Yuanyang Yunhe Commercial District Development Company Limited) | 運河商務區 (Canal Commercial District) | 100%             |
| 15 | 遠洋地產(中山)開發有限公司 (Sino-Ocean Land (Zhongshan) Limited)  | 遠洋城 (Ocean City)                  | 100%             |
| 16 | 萬祥置業(瀋陽)有限公司、遼寧萬祥置業有限公司 (Wanxiang Zhiye (Shenyang) Co., Ltd., Liaoning Wanxiang Property Co., Ltd.)   | 遠洋天地 (Ocean Paradise)             | 100%             |
| 17 | 北京麟聯置業有限公司 (Beijing Linlian Real Estate Co., Limited)   | 將台商務中心 (Jiangtai Business Center) | 50%              |
| 18 | 北京遠翔置業有限公司 (Beijing Yuan-Xiang Land Development Company Limited)  | 京棉 (Jingmian)                     | 100%             |
| 19 | 北京遠聯置地房地產開發有限公司 (Beijing Yuan-lian Real Estate Development Company Limited)   | 北七家項目 (Beiqijia Project)          | 100%             |
| 20 | 北京東隆房地產開發有限公司 (Beijing Dong Rong Real Estate Development Co., Ltd)  | 遠洋La•Vie (Ocean La•Vie)           | 85.72%           |
| 21 | 北京遠麟置業有限公司 (Beijing Yuan-lin Land Development Company Limited)  | 王府井項目 (Ocean Wangfujing Project)  | 100%             |
| 22 | 北京遠豪置業有限公司 (Beijing Yuan Hao Real Estate Co., Ltd.)   | 北京大望京項目 (Dawangjing Project)      | 100%             |
| 23 | 天津市遠贏置業有限公司 (Tianjin Yuanying Land Development Company Limited)   | 倪黃莊項目 (Nihuangzhuang Project)     | 100%             |
| 24 | 大連凱盟房地產開發有限公司 (Dalian Kai Meng Real Estate Development Co., Ltd.)   | 西山項目 (Xishan Project)             | 100%             |

|    | <b>Name of Company(ies) Involved</b>  | <b>Name of Project</b>                | <b>Holding %</b> |
|----|---|---------------------------------------|------------------|
| 25 | 大連宏澤置業有限公司 (Dalian Hong Ze Real Estate Co., Ltd.)   | 大學城 (University Zone)                 | 100%             |
| 26 | 大連鑫融置業有限公司、大連遠佳產業園開發有限公司 (Dalian Xin Rong Real Estate Co., Ltd., Dalian Yuan Jia Industry Park Development Co., Ltd.) | IT 產業園 (IT Zone)                      | 100%             |
| 27 | 大連滙洋置業有限公司 (Dalian Hui Yang Real Estate Co., Ltd.)  | 大連中華路項目 (Zhonghualu Project)          | 100%             |
| 28 | 黃山東方紅影視產業投資有限公司 (Huangshan Dong Fang Hong Movie Treatment Co., Ltd.)  | 桃花島項目 (Taohuadao Project)             | 100%             |
| 29 | 三亞南國奧林匹克花園有限公司 (Sanya Nanguo Olympic Garden Co., Ltd.)  | 三亞項目 (Sanya Project)                  | 70%              |
| 30 | 青島遠佳置業有限公司 (Qingdao Yuan Jia Real Estate Co., Ltd.)   | 青島泉州路項目 (Quanzhou Road Project)       | 100%             |
| 31 | 青島遠豪置業有限公司 (Qingdao Yuan Hao Real Estate Co., Ltd.)   | 青島浮山後項目 (Fushan New District Project) | 100%             |
| 32 | 杭州遠洋萊福房地產開發有限公司 (Hangzhou Yuan Yang Lai Fu Real Estate Development Company Limited)                                   | 杭一棉 (Hang Yimian)                     | 70%              |

## BUSINESS

### Overview

We are a leading real estate developer in Beijing and have a significant market presence across the Pan-Bohai Rim region of China, including in Dalian and Tianjin, as well as in several other major cities in China. We have a diversified portfolio of development projects and investment properties and have leveraged our initial experiences and success in Beijing to expand into other selected high growth areas in China, including the Pan-Bohai Rim and Pearl River Delta regions, while solidifying our leadership position in Beijing. In addition, we are continuing to leverage our experience and brand by undertaking development projects in important coastal cities in China such as Hangzhou and Qingdao, while beginning to build a market presence in economically vibrant cities in southwest China, and selectively establishing ourselves in certain emerging markets in China such as Sanya and Huangshan. With over 16 years of experience in China's real estate industry, we have accumulated in-depth knowledge of China's property market. We believe that our track record of successfully developing and completing 15 high quality projects has firmly established "Sino-Ocean" as a reputable and well-known brand.

We primarily develop medium to high-end residential properties, premium grade office buildings, retail space, serviced apartments and hotels and have 37 projects at various stages of development in Beijing, Tianjin, Shenyang, Dalian, Zhongshan, Qingdao, Huangshan, Hangzhou and Sanya. From January 1, 2007 through April 30, 2010, we had completed the development of projects with a total GFA of approximately 3.1 million sq.m. Our current land bank includes a total planned GFA of approximately 14.5 million sq.m.

For the year ended December 31, 2009 and the four months ended April 30, 2010, we generated approximately 93%, 2% and 5% of our revenue, respectively, from property development, property investment and other activities (including hotel operations, property management and other real estate related businesses). For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our revenue was RMB5,750 million, RMB6,487 million, RMB8,824 million and RMB2,460 million, respectively, and the profit attributable to equity holders of the Company was RMB1,722 million, RMB1,388 million, RMB1,582 million and RMB657 million, respectively. In line with our expansion strategy, we anticipate that revenue attributable to the sale of properties outside Beijing will increase as a percentage of our overall revenue going forward.

Our Company was established in 1993 as a real estate subsidiary of COSCO. In December 2009, we completed a placement of 934,000,000 shares to China Life at a subscription price of HK\$6.23 per share. Immediately following this purchase, China Life held 16.57% of our shares. In January 2010, China Life further increased its stake in us to 24.08%, as a result of a purchase of 423,000,000 shares from Sinochem, and became our largest shareholder. Our Company's shares have been listed on the Hong Kong Stock Exchange since September 28, 2007 under stock code 3377.HK. The Company's market capitalization as at July 9, 2010 was HK\$33,373 million.

Our Company is incorporated in Hong Kong and our corporate headquarters are located in Beijing. All of our property developments and investment properties are located in China.

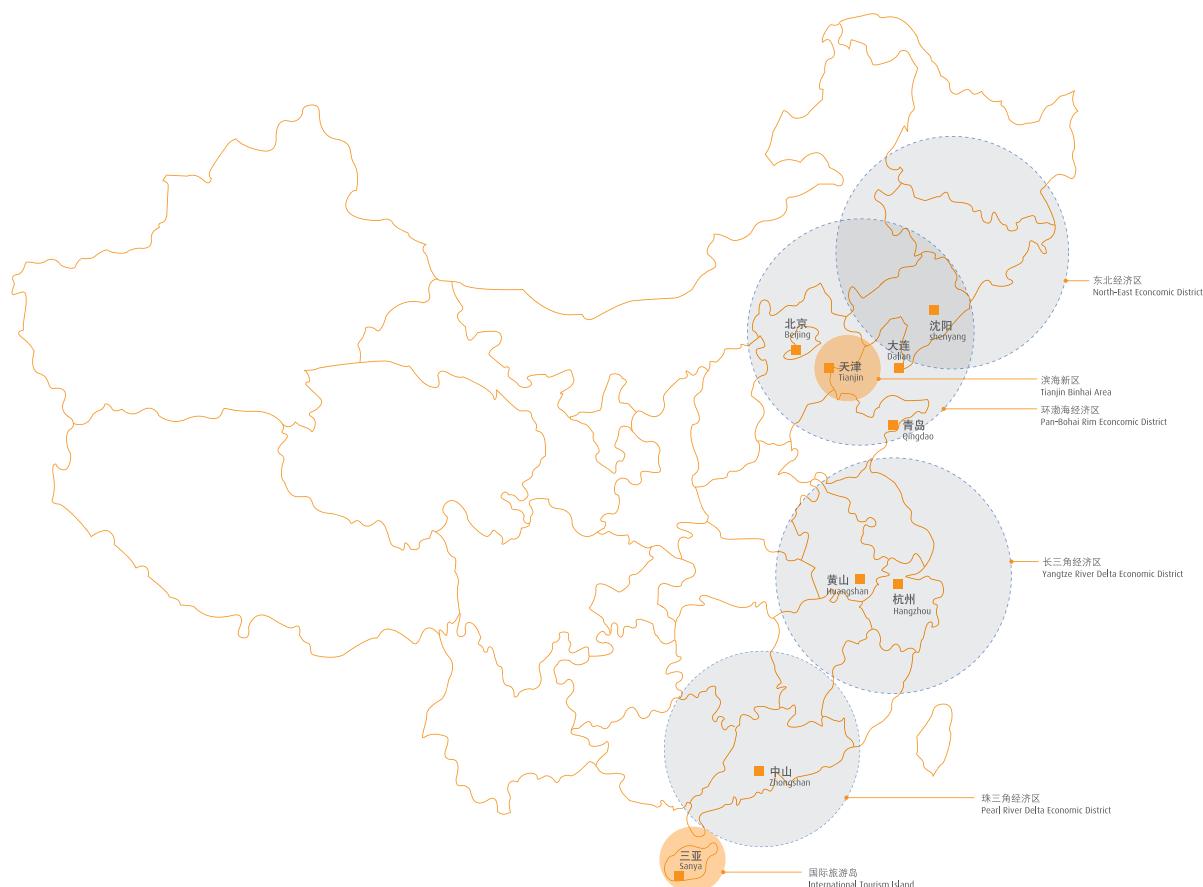
## OUR STRENGTHS

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

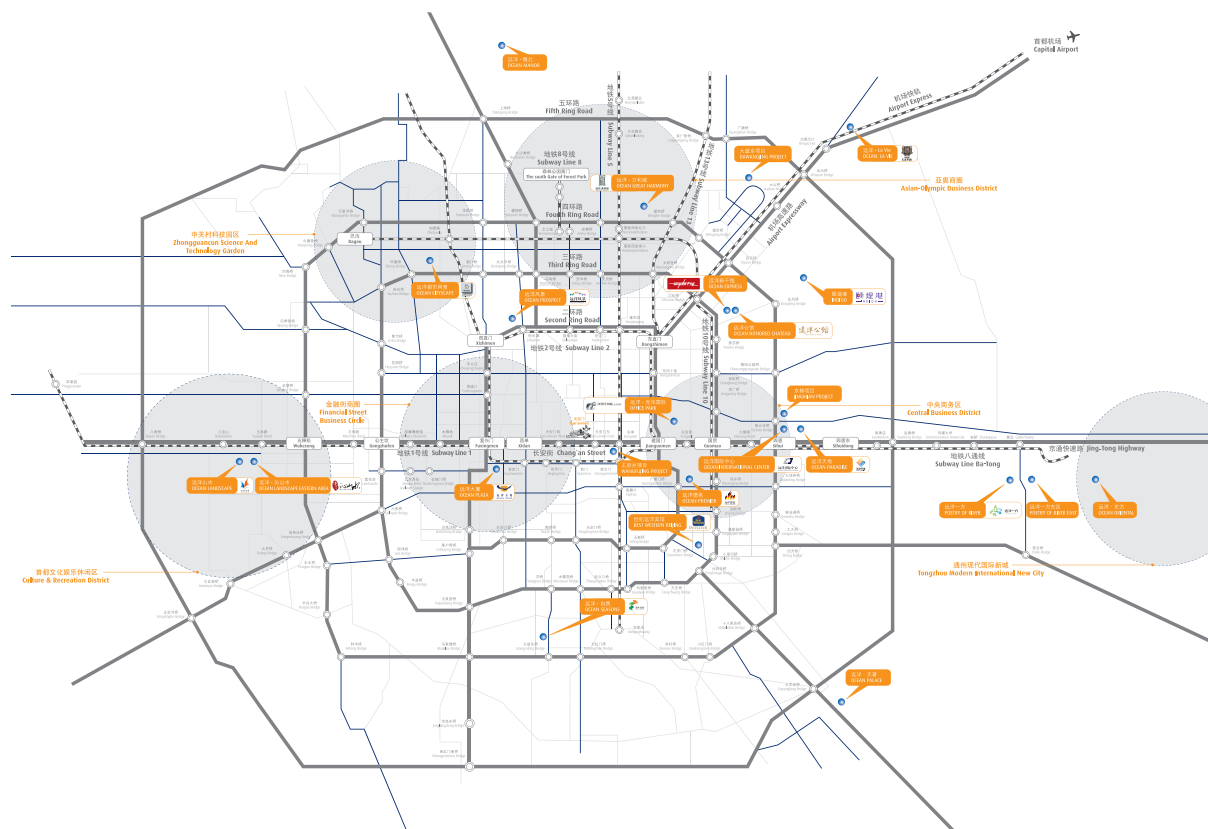
### Leading position in the Pan-Bohai Rim region

We are one of the leading real estate companies in the Pan-Bohai Rim region, with a significant market presence in Beijing, Dalian, Tianjin and nearby cities. We have more than 16 years of experience in the real estate industry. In terms of GFA sold in residential properties in Beijing, we ranked among the top three real estate developers over the past three years from January 1, 2007 to December 31, 2009, according to China Index Academy. During the period from January 1, 2007 to April 30, 2010, we continued to strengthen our competitive position through the completion of projects with an aggregate GFA of approximately 2.6 million sq.m. in the Pan-Bohai Rim region. Among these are residential, office, retail, serviced apartment and hotel properties and car parks situated in either prime or convenient locations throughout the region. In total, we currently have 37 projects, either completed, under development or held for future development, in prime locations in Beijing, Tianjin, Shenyang, Dalian, Zhongshan, Qingdao, Huangshan, Hangzhou and Sanya.

The following map shows the locations of our development projects and investment properties in Beijing, in the Pan-Bohai Rim region, and elsewhere in China, held as at April 30, 2010.



The following map shows the locations of our development projects and investment properties in Beijing held as at April 30, 2010.



### Proven ability to capitalize on high-growth opportunities in the Pan-Bohai Rim and Pearl River Delta regions

Leveraging the capabilities we have developed in the execution of property development projects, we have in recent years replicated our initial successes in Beijing and in other high-growth cities in the Pan-Bohai Rim and Pearl River Delta regions. Despite the challenging market conditions that have existed since mid-2008, we have continued to expand our market presence, diversifying into, for example, Dalian, where we have initiated nine projects in the past three years, Tianjin, where we have initiated four projects in the past three years, and Zhongshan, where we have initiated one project in the past three years. We believe our track record reflects capabilities that will enable us to replicate our performance in important cities along China's eastern coast such as Hangzhou and Qingdao, in economically robust cities in southwest China such as Chongqing and Chengdu, and in emerging cities in China such as Sanya and Huangshan.

As at April 30, 2010, we had a total of four completed and available projects, 15 projects under development, and 18 projects for future development; and our land bank across China had a total planned GFA of approximately 14.5 million sq.m. From January 1, 2007 to April 30, 2010, we completed GFA of approximately 1.7 million sq.m. in Beijing; GFA of approximately 405,000 sq.m. in Tianjin, and GFA of approximately 314,000 sq.m. in Dalian. As at April 30, 2010, our land bank in Beijing, Dalian and Tianjin was approximately 3.1 million sq.m., 4.4 million sq.m. and 3.3 million sq.m., respectively. We have also obtained large land parcels in Shenyang, Hangzhou, Huangshan, Qingdao, Sanya and Zhongshan.

Our strategic partners include Swire Properties Ltd, a major Hong Kong-based developer. We are 50/50 joint venture partners with Swire in a company which was set up to own, develop and manage

a substantial retail-led, mixed-use project in Jiangtai in the Chaoyang district of Beijing. The project is expected to open in 2011 and is intended to be a regional retail destination. The project, called “INDIGO”, is expected to comprise a major retail mall, a Grade A office tower and a 367-room lifestyle business hotel, with a total GFA for the project of approximately 306,000 sq.m.

### **Geographically diverse land bank with multi-product development portfolio**

Since we commenced operations in the early 1990s with an initial focus on Beijing, we have established a significant market presence in the Pan-Bohai Rim region and we are seeking to replicate our performance in other high-growth regions across China. We evaluate the growth potential of a city by considering a range of factors, including GDP and income levels, development of urban infrastructure, and property market supply and demand dynamics. In order to diversify our market concentration risks, we have selected target cities to acquire land bank for development in different parts of China featuring complementary growth profiles and in various stages of economic development. By diversifying across a range of strategically targeted cities, we believe we are well positioned to capitalize on significant growth opportunities while keeping risk at acceptable levels.

In addition to our geographic diversity, we have also accumulated extensive experience in developing a diverse array of products, including residential properties, office buildings, retail space, serviced apartments and hotels. While many of our best selling residential properties have been targeted at China’s increasingly affluent urban middle class, we have positioned ourselves to establish a significant presence in the mid-to-high end segments of the market. In addition, to complement the strength of our property development operations, we selectively hold three investment properties that we believe will offer us a stable cash flow and potential for strong capital appreciation. These investment properties are all situated in prime locations in Beijing.

As China’s real estate market continues to evolve, we believe our geographic diversity and our versatility will enable us to identify and take advantage of growth opportunities across China and to adjust our strategy on a timely basis as needed based on the prevailing regulatory environment and dynamic market demands.

### **Proven track record of successfully identifying, securing and developing prime sites**

We have consistently been able to identify, obtain and develop prime sites for both city-core office developments and integrated residential communities. All of our office development projects are centrally located. Most of our residential properties are located near public transportation hubs. We believe that our track record of securing and developing conveniently located prime sites is largely attributable to the extensive market research that we conduct and our management team’s valuable experience and capabilities. In addition, we seek out primary land development opportunities from local governments. Through this process, we believe we gain important insights into the particular land parcels in which we are interested and the development plans of the relevant government authorities. We believe this increases our chances of successfully obtaining the land in the subsequent auction or tender process.

We have a sizable, high-quality land bank which we believe includes attractive development locations. Our current land bank includes a total planned GFA of approximately 14.5 million sq.m. for which we either hold land use rights certificates, have signed the land grant contracts or have successfully tendered, bid or auctioned. We acquire land for future development in areas where we believe the land will appreciate in value. Due to the expertise of our management team, we believe we have been able to acquire much of our land bank at reasonable prices. As at April 30, 2010, approximately 73% of our land bank had been acquired in 2008 or earlier.

### **Strong customer focus and reputable brand name**

We believe that the success of our projects has been largely due to our ability to interpret and respond to customers’ tastes and preferences. Our focus on customer satisfaction begins with our market

research team, which works closely with our experienced senior management to study the potential of individual sites we seek to acquire, and their ultimate appeal and value to prospective buyers. During the design phase, our engineering team works closely with our market research and sales teams to identify the key features that customers desire and incorporate them into the design with the help of international and domestic architectural firms. Our customer-centric culture is further evidenced by our emphasis on delivering quality products. In addition to our own experienced engineers on site, we hire third party project supervision firms to monitor and ensure quality construction. At project completion, we conduct our own quality checks in addition to the mandatory inspections by government agencies.

Furthermore, our attention to detail and customer satisfaction extends beyond the completion of our projects through our comprehensive after-sales and property management services. As a result of our customer-oriented culture, customer referrals have accounted for a significant proportion of our residential property sales.

We believe that our customer focus and quality products have also enabled us to build “Sino-Ocean 遠洋地產” into a reputable and well-recognized brand in the Pan-Bohai Rim and the other areas where we have operations. For example, in 2009, the brand was ranked as one of the top 10 brand names by brand value in China’s real estate industry by the State Council’s Research Center for Enterprises Development, Tsinghua University’s Real Estate Market Research Center and China’s Index Research Center.

### **Experienced and capable management team and employees**

Our senior management team, led by Mr. LI Ming, our Executive Director and Chief Executive Officer, has an average of more than 10 years of real estate experience in China. Our management team comprises a group of seasoned professionals with extensive backgrounds in business management, property development and investment, project management and strategic planning. Most of our core senior management team have been working together for over 10 years. In addition, we have benefited significantly from the accumulated knowledge and hands-on experience of our project managers and employees. We believe that these individuals’ skills have enabled us to continue to improve the efficiency of our operations, the quality of our products, our ability to satisfy our customers’ needs and to build a track record of delivering growth during both favorable and challenging market conditions.

## **OUR STRATEGIES**

Our vision is to become the premier diversified real estate company in China. Our strategies to achieve this vision are as follows:

### **Strengthen our leading position in Beijing and elsewhere in the Pan-Bohai Rim region**

We intend to strengthen our leading position in Beijing and elsewhere in the Pan-Bohai Rim region by strategically building our land bank, promoting our brand, and continuing to focus on high quality customer service. We also intend to continue to strengthen our relationships with local governments and to identify and collaborate with strategic local partners. Through these efforts we believe we can take advantage of growth opportunities in our principal markets and further broaden our revenue base.

### **Continue to capture market opportunities through additional geographic diversification across China**

We plan to continue to pursue geographical diversification by further building our market presence in cities on China’s eastern coastal economic belt such as Shanghai and Qingdao, entering into core cities in southwest China such as Chongqing and Chengdu, and establishing operations in emerging Tier 2 and Tier 3 cities with unique characteristics such as Sanya and Huangshan.

### **Continue to expand land bank in a selective and disciplined manner**

We intend to continue to follow a selective and disciplined approach to land acquisition and to purchase land at reasonable costs. We will focus our land selection on conveniently located sites for residential projects, prime locations for office and retail projects, and large-scale land parcels suitable for integrated developments. We intend to actively participate in land auctions, and to add development sites by selectively pursuing merger and acquisition opportunities. In this regard, we intend to actively pursue expansion opportunities in Tier 2 and Tier 3 cities, with particular focus on merger and acquisition opportunities. For example, in January 2009, we completed a series of transactions to acquire equity interests in Tsanghao Real Estate Company, Dalian Sky Upright Property Limited and Dalian Sunny Ocean Property Limited for a total consideration of approximately RMB1.2 billion. After the acquisition, we wholly own the Xiangsong, Xishan and Ocean Worldview (formerly known as Red Star) projects in Dalian through these three project companies. For Tier 1 cities, we intend to adopt a disciplined approach to land acquisition. In addition to the foregoing, we intend to continue to selectively seek opportunities for primary land development as part of our land acquisition strategy.

### **Continue to increase profitability by improving cost management and operating efficiencies**

We intend to continue to focus on profitability and deliver attractive returns to shareholders. We reduced our administrative expenses by 24% in 2009 as compared to 2008, due to improved cost management, operating efficiency and economies of scale. We intend to continue to take a disciplined approach to cost management in every area of our business, especially land acquisition, project planning, construction and finance. In addition, we will continue to utilize and upgrade our IT systems for accounting, procurement and contract management in order to centralize and monitor these efforts at the corporate level and to achieve greater capital and operating efficiencies. Furthermore, we intend to more fully integrate our proprietary workflow and resource management system “Seagull II” into our operations, the development of which was initiated in 2009. We expect to improve our internal communications and decision-making capabilities, and to improve our overall efficiency.

### **Focus on enhancing the “Sino-Ocean” brand by leveraging value-added products and services**

We intend to continue to enhance the “Sino-Ocean” brand by delivering high quality products and maintaining our high standard of after-sales and property management services. We also intend to continue to focus on market research and to utilize our database of customer feedback to enhance our understanding of, and better serve, customers’ tastes and needs. In addition, we will continue to expand the “Ocean Club”, an exclusive membership club for purchasers of our residential properties, to provide an increasing range of benefits and privileges to our customers in order to increase brand loyalty. Customer satisfaction will continue to be a main focus in our overall business strategy and an integral part of our corporate culture.

## **OUR BUSINESS**

### **Our land bank**

In general, land use rights in China are granted for a term of 70 years for residential properties, 40 years for commercial properties, 50 years for office properties and 50 years for mixed use development properties. The relevant authorities will not issue a formal land use rights certificate in respect of a piece of land until the construction land use approval and the land planning permit have been obtained by the developer, and the land premium has been paid in full and the resettlement process completed. As a result, according to the pace of development, the land for a property development may be divided into one or more parcels for which multiple land use rights certificates are granted at different stages of development.



Our current portfolio of property developments consists of projects in Beijing, Tianjin, Shenyang, Dalian, Zhongshan, Hangzhou, Huangshan, Qingdao and Sanya. They include residential, office, retail space and hotel property developments.

The following table sets forth key details of each of our property developments as of April 30, 2010:

| Project                                 | Location  | Approximate total GFA<br>(sq.m.) | Approximate saleable GFA<br>(sq.m.) | Remaining GFA<br>(sq.m.) | Remaining Saleable GFA<br>(sq.m.) | Interest attributable to us<br>(%) |
|---|-----------|----------------------------------|-------------------------------------|--------------------------|-----------------------------------|------------------------------------|
| <b>Completed projects held for sale</b> |           |                                  |                                     |                          |                                   |                                    |
| Ocean Express (遠洋新幹線)                   | Beijing   | 191,000                          | 173,000                             | 17,000                   | 15,000                            | 100%                               |
| Ocean Landscape (遠洋山水)                  | Beijing   | 1,401,000                        | 1,193,000                           | 18,000                   | 15,000                            | 100%                               |
| Ocean Seasons (遠洋自然)                    | Beijing   | 381,000                          | 237,000                             | 10,000                   | 6,000                             | 100%                               |
| Ocean Honored Chateau (遠洋公館)            | Beijing   | 52,000                           | 39,000                              | 2,000                    | 2,000                             | 100%                               |
| <b>Projects under development</b>       |           |                                  |                                     |                          |                                   |                                    |
| Ocean Great Harmony (遠洋萬和城)             | Beijing   | 442,000                          | 298,000                             | 315,000                  | 191,000                           | 100%                               |
| Ocean Landscape East (遠洋沁山水)            | Beijing   | 599,000                          | 477,000                             | 507,000                  | 395,000                           | 100%                               |
| Poetry of River (遠洋一方)                  | Beijing   | 793,000                          | 703,000                             | 644,000                  | 572,000                           | 100%                               |
| Tongzhou Yuqiao Project (通州玉橋項目)        | Beijing   | 173,000                          | 152,000                             | 173,000                  | 152,000                           | 100%                               |
| Yizhuang Sanyang (亦莊三羊)                 | Beijing   | 327,000                          | 282,000                             | 327,000                  | 282,000                           | 100%                               |
| Ocean City (遠洋城)                        | Tianjin   | 2,409,000                        | 2,089,000                           | 2,409,000                | 2,089,000                         | 100%                               |
| Ocean Express (遠洋新幹線)                   | Tianjin   | 346,000                          | 288,000                             | 225,000                  | 186,000                           | 97%                                |
| Ocean Paradise (遠洋天地)                   | Tianjin   | 578,000                          | 469,000                             | 278,000                  | 217,000                           | 97%                                |
| Ocean Prospect (遠洋風景)                   | Dalian    | 178,000                          | 160,000                             | 71,000                   | 65,000                            | 100%                               |
| Ocean Worldview (紅星海世界觀)                | Dalian    | 1,928,000                        | 1,484,000                           | 1,928,000                | 1,484,000                         | 100%                               |
| Xiangsong Project (香頌花城項目)              | Dalian    | 188,000                          | 176,000                             | 112,000                  | 104,000                           | 100%                               |
| Ocean Seasons (遠洋自然)                    | Dalian    | 138,000                          | 102,000                             | 138,000                  | 102,000                           | 100%                               |
| Canal Commercial District (運河商務區)       | Hangzhou  | 866,000                          | 665,000                             | 866,000                  | 665,000                           | 100%                               |
| Ocean City (遠洋城)                        | Zhongshan | 1,913,000                        | 1,704,000                           | 1,584,000                | 1,411,000                         | 100%                               |
| Ocean Paradise (遠洋天地)                   | Shenyang  | 795,000                          | 680,000                             | 637,000                  | 545,000                           | 100%                               |
| <b>Projects for future development</b>  |           |                                  |                                     |                          |                                   |                                    |
| Jiangtai Business Center (將台商務中心)       | Beijing   | 306,000                          | 264,000                             | 306,000                  | 264,000                           | 50%                                |
| Jingmian (京棉)                           | Beijing   | 79,000                           | 70,000                              | 79,000                   | 70,000                            | 100%                               |
| Beiqijia Project (北七家項目)                | Beijing   | 215,000                          | 118,000                             | 215,000                  | 118,000                           | 100%                               |
| Ocean La Vie (遠洋•La Vie)                | Beijing   | 208,000                          | 130,000                             | 208,000                  | 130,000                           | 85.72%                             |
| Ocean Wangfujing Project (王府井項目)        | Beijing   | 50,000                           | 45,000                              | 50,000                   | 45,000                            | 100%                               |
| Dawangjing Project (北京大望京項目)            | Beijing   | 170,000                          | 148,000                             | 170,000                  | 148,000                           | 100%                               |
| Poetry of River East (遠洋一方東區)           | Beijing   | 94,000                           | 80,000                              | 94,000                   | 80,000                            | 100%                               |
| Nihuangzhuang Project (倪黃莊項目)           | Tianjian  | 351,000                          | 336,000                             | 351,000                  | 336,000                           | 100%                               |
| Xishan Project (西山項目)                   | Dalian    | 97,000                           | 93,000                              | 97,000                   | 93,000                            | 100%                               |
| University Zone (大學城)                   | Dalian    | 537,000                          | 488,000                             | 537,000                  | 488,000                           | 100%                               |
| IT Zone (IT 產業園) — Residential          | Dalian    | 355,000                          | 345,000                             | 355,000                  | 345,000                           | 100%                               |
| IT Zone (IT 產業園) — Industrial           | Dalian    | 835,000                          | 399,000                             | 835,000                  | 399,000                           | 100%                               |
| Zhonghualu Project (大連中華路項目)            | Dalian    | 348,000                          | 348,000                             | 348,000                  | 348,000                           | 100%                               |
| Taohuadao Project (桃花島項目)               | Huangshan | 140,000                          | 135,000                             | 140,000                  | 135,000                           | 100%                               |
| Sanya Project (三亞項目)                    | Hainan    | 67,000                           | 67,000                              | 67,000                   | 67,000                            | 70%                                |
| Quanzhou Road Project (青島泉州路項目)         | Qingdao   | 80,000                           | 80,000                              | 80,000                   | 80,000                            | 100%                               |
| Fushan New District Project (青島浮山後項目)   | Qingdao   | 108,000                          | 108,000                             | 108,000                  | 108,000                           | 100%                               |
| Hang Yimian (杭一棉)                       | Hangzhou  | 199,000                          | 141,000                             | 199,000                  | 141,000                           | 70%                                |
| <b>Total</b>                            |           | <b>17,937,000</b>                | <b>14,766,000</b>                   | <b>14,500,000</b>        | <b>11,893,000</b>                 |                                    |

We include in this Offering Circular the project names which we have used, or intend to use, to market our properties to which we have added references to their geographic location for the purposes of clarity. Some of the names for our property developments have not yet been approved by the relevant government authorities and may be subject to change.

The site area information for an entire project is based on either the relevant land use rights certificates, land grant contracts or tender documents, depending on which documents are available. The aggregate GFA of a project includes saleable and non-saleable GFA, car parking spaces as well as rentable and hotel GFA. "Saleable GFA" represents the GFA of a property which we intend to sell and which does not exceed the multiple of the site area and the maximum permissible plot ratio as specified in the relevant land grant contracts or other approval documents from the local governments relating to the project. Saleable GFA does not include the GFA of car parking spaces unless otherwise stated. "Non-saleable GFA" represents the GFA of a property which is not for sale and largely includes ancillary facilities such as public facilities and schools. "Rentable GFA" refers to GFA that is available for rental proposes and "hotel GFA" refers to the total GFA of the relevant hotel.

The following information that appears in this Offering Circular is based on our internal records and estimates: (a) figures for GFA for completed projects held for sale, GFA under development, GFA for future development, GFA sold, GFA pre-sold, saleable GFA, non-saleable GFA, rentable GFA and hotel GFA, and (b) information regarding planned construction period and number of units. The information setting out the construction period for the completed blocks or phases of our projects in this Offering Circular is based on relevant government documents or our own internal records.

A property is sold when the purchase contract with a customer has been executed and the property has been delivered to the customer. A property is pre-sold when the purchase contract has been executed but the property has not yet been delivered to the customer.

## **OUR PROPERTY DEVELOPMENT PROJECTS**

### **Completed projects held for sale**

#### ***Ocean Express (遠洋新幹線) (Beijing)***

Ocean Express (遠洋新幹線) is an integrated residential and retail property development. It is situated in the Yansha commercial district in Beijing. This development occupies a total site area of approximately 38,294 sq.m. and has a total planned GFA of approximately 191,000 sq.m.

We have completed the development of this project. As at April 30, 2010, we had sold approximately 91% of the GFA of the development.

#### ***Ocean Landscape (遠洋山水) (Beijing)***

Ocean Landscape (遠洋山水) is an integrated residential and retail property development. It is situated along the western extension of West Chang'an Avenue in Beijing. This development occupies a total site area of approximately 303,435 sq.m. and has a total planned GFA of approximately 1,401,000 sq.m.

We have completed the development of this project. As of April 30, 2010, we had sold approximately 99% of the GFA of the development.

#### ***Ocean Seasons (遠洋自然) (Beijing)***

Ocean Seasons (遠洋自然) is an integrated residential, premium office and retail property development. It is situated near the Gongyidong Bridge of Beijing. This development occupies a total site area of approximately 61,085 sq.m. and has a total planned GFA of approximately 381,000 sq.m.

We have completed the development of this project. As of April 30, 2010, we had sold approximately 97% of the GFA of the development.

***Ocean Honored Chateau (遠洋公館) (Beijing)***

Ocean Honored Chateau (遠洋公館) is an integrated residential and retail property development. It is situated in the Yansha business district in Beijing. This development occupies a total site area of approximately 9,000 sq.m. and has a total planned GFA of approximately 52,000 sq.m.

We have completed the development of this project. As of April 30, 2010, we had sold approximately 96% of the GFA of the development.

**Projects under development**

***Ocean Great Harmony (遠洋萬和城) (Beijing)***

Ocean Great Harmony (遠洋萬和城) is an integrated residential, office and retail community property development. It is situated in a prime site within the Ya-Ao Business Circle in the Chaoyang District in Beijing. This development occupies a total site area of approximately 106,526 sq.m. and has a total planned GFA of approximately 442,000 sq.m.

As at April 30, 2010, we had sold approximately 29% of the GFA of the development.

Details of this development as at April 30, 2010 were as follows:

|                                       | <b>Residential</b> | <b>Retail</b>   | <b>Office</b>   | <b>Other</b>    |
|---------------------------------------|--------------------|-----------------|-----------------|-----------------|
| Construction period                   | 04/2007-11/2010    | 04/2007-11/2010 | 05/2010-11/2012 | 04/2007-11/2010 |
| Total GFA (sq.m.)                     | 280,000            | 52,000          | 39,100          | 70,900          |
| Number of units                       | 1,416              | —               | —               | —               |
| Total GFA sold (sq.m.) <sup>(1)</sup> | 103,000            | —               | —               | 24,000          |

(1) “Total GFA sold” is not equivalent to “Total Saleable GFA sold” as it includes both saleable and non-saleable GFA.

***Ocean Landscape East (遠洋沁山水) (Beijing)***

Ocean Landscape East (遠洋沁山水) is an integrated residential, office and retail community property development. It is situated in the Shijingshan District of Beijing. This development occupies a total site area of approximately 146,604 sq.m. and has a total planned GFA of approximately 599,000 sq.m.

As at April 30, 2010, we had sold approximately 15% of GFA of the development.

Details of this development as at April 30, 2010 were as follows:

|                                       | <b>Residential</b> | <b>Retail</b>   | <b>Office</b>   | <b>Other</b>    |
|---------------------------------------|--------------------|-----------------|-----------------|-----------------|
| Construction period                   | 06/2008-06/2012    | 06/2008-06/2012 | 06/2008-06/2012 | 06/2008-06/2012 |
| Total GFA (sq.m.)                     | 473,000            | 3,800           | 55,600          | 66,600          |
| Number of units                       | 3,202              | —               | —               | —               |
| Total GFA sold (sq.m.) <sup>(1)</sup> | 92,000             | —               | —               | —               |

(1) “Total GFA sold” is not equivalent to “Total Saleable GFA sold” as it includes both saleable and non-saleable GFA.

### **Poetry of River (遠洋一方) (Beijing)**

Poetry of River (遠洋一方) is an integrated residential and retail community property development. It is situated west of the Jing-Tong Expressway of Chaoyang District of Beijing. This development occupies a total site area of approximately 349,774 sq.m. and has a total planned GFA of approximately 793,000 sq.m.

As at April 30, 2010, we had sold approximately 19% of the GFA of the development.

Details of this development as at April 30, 2010 were as follows:

|                                       | <b>Residential</b> | <b>Retail</b>   | <b>Other</b>    |
|---------------------------------------|--------------------|-----------------|-----------------|
| Construction period                   | 07/2007-12/2011    | 07/2007-12/2011 | 07/2007-12/2011 |
| Total GFA (sq.m.)                     | 713,000            | 13,000          | 67,000          |
| Number of units                       | 5,600              | —               | —               |
| Total GFA sold (sq.m.) <sup>(1)</sup> | 149,000            | —               | —               |

(1) “Total GFA sold” is not equivalent to “Total Saleable GFA sold” as it includes both saleable and non-saleable GFA.

### **Tongzhou Yuqiao Project (通州玉橋項目) (Beijing)**

Tongzhou Yuqiao Project (通州玉橋項目) is an integrated residential and retail community property development. It is situated in the Tongzhou Modern International New City of Beijing. This development occupies a total site area of approximately 46,199 sq.m. and has a total planned GFA of approximately 173,000 sq.m.

We expect to complete the development in 2015.

Details of this development as at April 30, 2010 were as follows:

|                        | <b>Residential</b> | <b>Retail</b>   | <b>Other</b>    |
|------------------------|--------------------|-----------------|-----------------|
| Construction period    | 10/2010-06/2015    | 10/2010-06/2015 | 10/2010-06/2015 |
| Total GFA (sq.m.)      | 158,000            | 1,500           | 13,500          |
| Number of units        | 770                | —               | —               |
| Total GFA sold (sq.m.) | —                  | —               | —               |

### **Jiangtai Business Center (將台商務中心) (Beijing)**

Jiangtai Business Center (將台商務中心) is currently planned to be an integrated premium office, hotel and retail property development. It is situated in the Lido commercial district of the Jiuxianqiao area in Chaoyang District in Beijing. This development occupies a total site area of approximately 58,369 sq.m. and is expected to have a total planned GFA of approximately 306,000 sq.m.

We have a land use rights certificate for this project.

We began the development of this project in 2010.

### ***Ocean City (遠洋城) (Tianjin)***

Ocean City (遠洋城) is an integrated residential and retail community property development. It is situated in Hujiayuan along Jin-Tang Highway in Tanggu District in Tianjin. This development occupies a total site area of approximately 616,527 sq.m. and has a total planned GFA of approximately 2,409,000 sq.m.

We expect to complete the development in 2016.

Details of this development as at April 30, 2010 were as follows:

|                        | <b>Residential</b> | <b>Retail</b>   | <b>Other</b>    |
|------------------------|--------------------|-----------------|-----------------|
| Construction period    | 05/2008-05/2016    | 05/2008-05/2016 | 05/2008-05/2016 |
| Total GFA (sq.m.)      | 1,924,000          | 148,700         | 336,300         |
| Number of units        | 15,393             | —               | —               |
| Total GFA sold (sq.m.) | —                  | —               | —               |

### ***Ocean Express (遠洋新幹線) (Tianjin)***

Ocean Express (遠洋新幹線) is an integrated residential and retail community property development. It is situated in the Airport Industrial Park of Tianjin. This development occupies a total site area of approximately 214,784 sq.m. and has a total planned GFA of approximately 346,000 sq.m.

We expect to complete the development in 2011. As at April 30, 2010, we had sold approximately 35% of the GFA of the development.

Details of this development as at April 30, 2010 were as follows:

|                                       | <b>Residential</b> | <b>Retail</b>   |
|---------------------------------------|--------------------|-----------------|
| Construction period                   | 08/2007-08/2011    | 08/2007-08/2011 |
| Total GFA (sq.m.)                     | 265,000            | 81,000          |
| Number of units                       | 1,052              | —               |
| Total GFA sold (sq.m.) <sup>(1)</sup> | 121,000            | —               |

(1) “Total GFA sold” is not equivalent to “Total Saleable GFA sold” as it includes both saleable and non-saleable GFA.

### ***Ocean Paradise (遠洋天地) (Tianjin)***

Ocean Paradise (遠洋天地) is a large-scale integrated residential, office and retail community property development. It is situated in the heart of Tianjin. This development occupies a total site area of approximately 180,428 sq.m. and has a total planned GFA of approximately 578,000 sq.m.

We expect to complete the development in 2012. As at April 30, 2010, we had sold approximately 52% of the GFA of the development.

Details of this development as at April 30, 2010 were as follows:

|                                       | <b>Residential</b> | <b>Retail</b>   | <b>Office</b>   | <b>Other</b>    |
|---------------------------------------|--------------------|-----------------|-----------------|-----------------|
| Construction period                   |                    | 05/2009-08/2012 | 05/2009-08/2012 | 05/2009-08/2012 |
| Total GFA (sq.m.)                     | 278,600            | 250,800         | 11,000          | 37,600          |
| Number of units                       | 1,856              | —               | —               | —               |
| Total GFA sold (sq.m.) <sup>(1)</sup> | 278,000            | 7,000           | —               | 15,000          |

(1) “Total GFA sold” is not equivalent to “Total Saleable GFA sold” as it includes both saleable and non-saleable GFA.

***Ocean Prospect (遠洋風景) (Dalian)***

Ocean Prospect (遠洋風景) is an integrated residential and retail community property development. It is situated on Huanghe Avenue in Dalian. This development occupies a total site area of approximately 62,961 sq.m. and has a total planned GFA of approximately 178,000 sq.m.

We expect to complete the development in 2011. As at April 30, 2010, we had sold approximately 60% of the GFA of the development.

Details of this development as at April 30, 2010 were as follows:

|                                       | <b>Residential</b> | <b>Retail</b>   | <b>Other</b>    |
|---------------------------------------|--------------------|-----------------|-----------------|
| Construction period                   |                    | 07/2007-05/2011 | 07/2007-05/2011 |
| Total GFA (sq.m.)                     | 130,000            | 29,000          | 19,000          |
| Number of units                       | 1,340              |                 |                 |
| Total GFA sold (sq.m.) <sup>(1)</sup> | 84,000             | 14,000          | 9,000           |

(1) “Total GFA sold” is not equivalent to “Total Saleable GFA sold” as it includes both saleable and non-saleable GFA.

***Ocean Worldview (紅星海世界觀) (Dalian)***

Ocean Worldview (紅星海世界觀) is a large-scale integrated residential and retail community property development. It is situated on Jinma Road in the Dalian Development Zone of Dalian. This development occupies a total site area of approximately 1,222,367 sq.m. and has a total planned GFA of approximately 1,928,000 sq.m.

We expect to complete the development in 2016.

Details of this development as at April 30, 2010 were as follows:

|                        | <b>Residential</b> | <b>Retail</b>   | <b>Other</b>    |
|------------------------|--------------------|-----------------|-----------------|
| Construction period    |                    | 08/2008-05/2016 | 08/2008-05/2016 |
| Total GFA (sq.m.)      | 1,527,000          | 129,000         | 272,000         |
| Number of units        | 9,863              | —               | —               |
| Total GFA sold (sq.m.) | —                  | —               | —               |

### ***Xiangsong Project (香頌花城項目) (Dalian)***

Xiangsong Project (香頌花城項目) is an integrated residential and retail community property development. It is situated on Xinhua Road in Dalian. This development occupies a total site area of approximately 118,739 sq.m. and has a total planned GFA of approximately 188,000 sq.m.

We expect to complete the development in 2010. As at April 30, 2010, we had sold approximately 40% of the GFA of the development.

Details of this development as at April 30, 2010 were as follows:

|                                       | <b>Residential</b> | <b>Retail</b>   | <b>Other</b>    |
|---------------------------------------|--------------------|-----------------|-----------------|
| Construction period                   | 06/2008-09/2010    | 06/2008-09/2010 | 06/2008-09/2010 |
| Total GFA (sq.m.)                     | 164,000            | 12,000          | 12,000          |
| Number of units                       | 1,590              | —               | —               |
| Total GFA sold (sq.m.) <sup>(1)</sup> | 76,000             | —               | —               |

(1) “Total GFA sold” is not equivalent to “Total Saleable GFA sold” as it includes both saleable and non-saleable GFA.

### ***Ocean Seasons (遠洋自然) (Dalian)***

Ocean Seasons (遠洋自然) is a high-end residential and retail community property development. It is situated at Nanguanling in the Ganjingzi district in Dalian. This development occupies a total site area of approximately 43,702 sq.m. and has a total planned GFA of approximately 138,000 sq.m.

We expect to complete the development in 2012.

Details of this development as at April 30, 2010 were as follows:

|                        | <b>Residential</b> | <b>Retail</b>   | <b>Other</b>    |
|------------------------|--------------------|-----------------|-----------------|
| Construction period    | 05/2010-05/2012    | 05/2010-05/2012 | 05/2010-05/2012 |
| Total GFA (sq.m.)      | 134,100            | 2,560           | 1,340           |
| Number of units        | 948                | —               | —               |
| Total GFA sold (sq.m.) | —                  | —               | —               |

### ***Canal Commercial District (運河商務區) (Hangzhou)***

Canal Commercial District (運河商務區) is a large-scale integrated residential, office, hotel and retail community property development. It is located south of the Gongshu District in Hangzhou. This development occupies a total site area of approximately 198,917 sq.m. and has a total planned GFA of approximately 866,000 sq.m.

We have begun the development of this project.

Details of this development as at April 30, 2010 were as follows:

|                        | <b>Residential</b> | <b>Retail</b>   | <b>Office</b>   | <b>Hotel</b>    |
|------------------------|--------------------|-----------------|-----------------|-----------------|
| Construction period    | 12/2009-06/2014    | 06/2011-12/2014 | 12/2010-12/2015 | 01/2012-08/2015 |
| Total GFA (sq.m.)      | 346,000            | 118,000         | 324,000         | 78,000          |
| Number of units        | 1,340              |                 |                 |                 |
| Total GFA sold (sq.m.) | —                  | —               | —               | —               |

***Ocean City (遠洋城) (Zhongshan)***

Ocean City (遠洋城) is a large-scale integrated residential, office, hotel and retail community property development. It is situated on Bo'ai Sixth Road in the Eastern District of Zhongshan. This development occupies a total site area of approximately 973,706 sq.m. and has a total planned GFA of approximately 1,913,000 sq.m.

We expect to complete the development in 2013. As at April 30, 2010, we had sold approximately 17% of the GFA of the development.

Details of this development as at April 30, 2010 were as follows:

|                                       | <b>Residential</b> | <b>Retail</b>   | <b>Hotel</b>    | <b>Office</b>   | <b>Other</b>   |
|---------------------------------------|--------------------|-----------------|-----------------|-----------------|----------------|
| Construction period                   | 06/2007-5/2013     | 03/2010-09/2012 | 02/2011-09/2013 | 02/2011-12/2014 | 06/2007-5/2013 |
| Total GFA (sq.m.)                     | 1,429,000          | 140,000         | 34,000          | 87,000          | 223,000        |
| Number of units                       | 8,679              | —               | —               | —               | —              |
| Total GFA sold (sq.m.) <sup>(1)</sup> | 296,000            | 6,000           | —               | —               | 27,000         |

(1) "Total GFA sold" is not equivalent to "Total Saleable GFA sold" as it includes both saleable and non-saleable GFA.

***Ocean Paradise (遠洋天地) (Shenyang)***

Ocean Paradise (遠洋天地) is an integrated residential, hotel and retail community property development. It is situated on Changbai Island in Shenyang. This development occupies a total site area of approximately 261,404 sq.m. and has a total planned GFA of approximately 795,000 sq.m.

We expect to complete the development in 2015. As at April 30, 2010, we had sold approximately 20% of the GFA of the development.

Details of this development as at April 30, 2010 were as follows:

|                                       | <b>Residential</b> | <b>Retail</b>   | <b>Hotel</b>    | <b>Other</b>    |
|---------------------------------------|--------------------|-----------------|-----------------|-----------------|
| Construction period                   | 07/2007-08/2013    | 07/2011-08/2013 | 03/2012-06/2015 | 02/2008-06/2015 |
| Total GFA (sq.m.)                     | 650,000            | 50,000          | 65,000          | 30,000          |
| Number of units                       | 1,316              | —               | —               | —               |
| Total GFA sold (sq.m.) <sup>(1)</sup> | 150,000            | —               | —               | 8,000           |

(1) "Total GFA sold" is not equivalent to "Total Saleable GFA sold" as it includes both saleable and non-saleable GFA.



## *Projects for future development*

### ***Yizhuang Sanyang (亦莊三羊) (Beijing)***

Yizhuang Sanyang (亦莊三羊) is a large-scale integrated residential and retail community property development. It is situated southeast of the fifth ring road in Beijing near the Dayang Fang Bridge in Chaoyang District. This development occupies a total site area of approximately 228,533 sq.m. and has a total planned GFA of approximately 327,000 sq.m.

We expect to complete the development in 2015.

Details of this development as at April 30, 2010 were as follows:

|                        | <b>Residential</b> | <b>Retail</b>   |
|------------------------|--------------------|-----------------|
| Construction period    | 10/2010-06/2015    | 10/2010-06/2015 |
| Total GFA (sq.m.)      | 316,800            | 10,200          |
| Number of units        | 891                | —               |
| Total GFA sold (sq.m.) | —                  | —               |

### ***Jingmian (京棉) (Beijing)***

Jingmian (京棉) is currently planned to be an integrated residential premium office development. It is situated next of Ocean International Centre of Beijing. This development occupies a total site area of approximately 17,610 sq.m. and is expected to have a total planned GFA of approximately 79,000 sq.m.

We have a land use rights certificate for this project.

We expect to begin the development of the project on or before 2012.

### ***Beiqijia Project (北七家項目) (Beijing)***

Beiqijia Project (北七家項目) is currently planned to be an integrated residential and retail property development. It is situated on the northern part of the Fifth Ring Road of Beijing. This development occupies a total site area of approximately 200,663 sq.m. and is expected to have a total planned GFA of approximately 215,000 sq.m.

We have a land use rights certificate for this project.

We have begun the development of this project.

### ***Ocean La Vie (遠洋 • La Vie) (Beijing)***

Ocean La Vie (遠洋 • La Vie) is currently planned to be a residential property development. This development occupies a total site area of approximately 240,851 sq.m. and is expected to have a total planned GFA of approximately 208,000 sq.m.

We have a land use rights certificate for this project.

We have begun the development of this project.

***Ocean Wangfujing Project (王府井項目) (Beijing)***

Ocean Wangfujing Project (王府井項目) is currently planned to be a premium office property development. It is situated in the Wangfujing district in Beijing. This development occupies a total site area of approximately 10,855 sq.m. and is expected to have a total planned GFA of approximately 50,000 sq.m.

We have a land use rights certificate for this project.

We expect to begin the development of the project on or before 2013.

***Dawangjing Project (北京大望京項目) (Beijing)***

Dawangjing Project (北京大望京項目) is currently planned to be an integrated residential hotel and retail property development. It is situated in the Dawangjing area of Beijing. This development occupies a total site area of approximately 58,973 sq.m. and is expected to have a total planned GFA of approximately 170,000 sq.m.

We have signed a land grant contract for this project.

We expect to begin development of the project in late 2010 or early 2011.

***Poetry of River East (遠洋一方東區) (Beijing)***

Poetry of River East (遠洋一方東區) is an integrated residential and retail community property development. It is situated south of Shuanghui Bridge in Chaoyang District in Beijing. This development occupies a total site area of approximately 28,720 sq.m. and has a total planned GFA of approximately 94,000 sq.m.

We have signed a land grant contract for this project.

We currently expect to begin construction of the development in 2010.

***Nihuangzhuang Project (倪黃莊項目) (Tianjin)***

Nihuangzhuang Project (倪黃莊項目) is currently planned to be a residential property development. It is situated in the southern part of Tianjin. This development occupies a total site area of approximately 130,417 sq.m. and is expected to have a total planned GFA of approximately 351,000 sq.m.

We have signed a land grant contract for this project.

We expect to begin the development of the project on or before 2013.

***Xishan Project (西山項目) (Dalian)***

Xishan Project (西山項目) is currently planned to be an integrated residential and retail property development. It is situated in the Xishan District of Dalian. This development occupies a total site area of approximately 17,123 sq.m. and is expected to have a total planned GFA of approximately 97,000 sq.m.

We have a land use rights certificate for this project.

We expect to begin the development of the project in or before 2012.

***University Zone (大學城) (Dalian)***

University Zone (大學城) is currently planned to be an integrated residential and retail property development. It is situated in the new development zone of Dalian. This development occupies a total site area of approximately 272,210 sq.m. and is expected to have a total planned GFA of approximately 537,000 sq.m.

We have signed a land grant contract for this project.

We expect to begin the development of the project in 2012.

***IT Zone (IT產業園) — Residential (Dalian)***

IT Zone (IT產業園) — Residential is currently planned to be a residential property development. It is situated in the new development zone of Dalian. This development occupies a total site area of approximately 462,158 sq.m. and is expected to have a total planned GFA of approximately 355,000 sq.m.

We have signed a land grant contract for this project.

We expect to begin the development of the project in 2012.

***IT Zone (IT 產業園) — Industrial (Dalian)***

IT Zone (IT 產業園) — Industrial is currently planned to be an industrial property development. It is situated in the new development zone of Dalian. This development occupies a total site area of approximately 661,824 sq.m. and is expected to have a total planned GFA of approximately 835,000 sq.m.

We have signed a land grant contract for this project.

We expect to begin the development of the project in or before 2014.

***Zhonghualu Project (大連中華路項目) (Dalian)***

Zhonghualu Project (大連中華路項目) is currently planned to be an integrated residential and retail property development. It is located within the Gan Jing Zi District of Dalian. This development occupies a total site area of approximately 82,690 sq.m. and is expected to have a total planned GFA of approximately 348,000 sq.m.

We have signed a land grant contract for this project.

We expect to begin the development of the project in or before 2013.

***Taohuadao Project (桃花島項目) (Huangshan)***

Taohuadao Project (桃花島項目) is currently planned to be a residential and resort property development. It is located in the Taohuadao District of Huangshan. This development occupies a total site area of approximately 295,057 sq.m. and is expected to have a total planned GFA of approximately 140,000 sq.m. Our project development subsidiary engaged in this project is in the process of applying for the required real estate development qualification certificate.

We have a land use rights certificate for this project.

We expect to begin the development of the project in 2013.

***Sanya Project (三亞項目) (Hainan)***

Sanya Project (三亞項目) is currently planned to be a residential property development. It is located in Sanya on Hainan Island. This development occupies a total site area of approximately 18,661 sq.m. and is expected to have a total planned GFA of approximately 67,000 sq.m.

We signed a land grant contract for this project.

We expect to begin the development of the project in or before 2012.

***Quanzhou Road Project (青島泉州路項目) (Qingdao)***

Quanzhou Road Project (青島泉州路項目) is currently planned to be an integrated residential and retail property development. It is located near the CBD of Qingdao. This development occupies a total site area of approximately 42,463 sq.m. and is expected to have a total planned GFA of approximately 80,000 sq.m.

We signed a land grant contract for this project.

We expect to begin the development of the project in or before 2012.

***Fushan New District Project (青島浮山後項目) (Qingdao)***

Fushan New District Project (青島浮山後項目) is currently planned to be an integrated residential and retail property development. It is situated in the Fushan New District of Qingdao. This development occupies a total site area of approximately 46,883 sq.m. and is expected to have a total planned GFA of approximately 108,000 sq.m.

We signed a land grant contract for this project.

We expect to begin the development of the project in or before 2012.

***Hang Yimian (杭一棉) (Hangzhou)***

Hang Yimian (杭一棉) is currently planned to be a residential property development. It is situated in the Hang Yimian district of Hangzhou. This development occupies a total site area of approximately 85,069 sq.m. and is expected to have a total planned GFA of approximately 199,000 sq.m.

We have a land use rights certificate for this project.

We expect to begin the development of the project in 2013.

## OTHER PROJECTS

We are currently engaged in the primary land development of various sites such as the CBD Project, the southern district of Poetry of River Phase II, Yongshun Linkong New Estate and the Chongqing International Golf Project. We generally receive an agreed amount as compensation for our primary land development projects. We intend to continue to selectively pursue similar projects in the future. Through our involvement in such primary land development projects, we hope to increase our chances of obtaining the rights to secondary land development of these sites when the PRC land authorities make the relevant plots of land available for tender, bid or auction. We set out below further details of our primary land development projects:

| Project                                      | Location  | Total Site Area<br>(sq.m.) |
|--|-----------|----------------------------|
| CBD Project                                  | Beijing   | 80,016                     |
| Poetry of River Phase II (Southern District) | Beijing   | 45,000                     |
| Yongshun Linkong New Estate                  | Beijing   | 1,368,755                  |
| Chongqing International Golf Project         | Chongqing | 456,364                    |

## PROJECT DEVELOPMENT

Although the nature and sequence of specific planning and execution activities will vary among projects, we have summarized below the core elements of our typical project development process for our properties for sale:

| Project Selection   | Land Bidding/<br>Tendering  | Pre-construction   | Project Design   | Construction  | Pre-sale and Sale   | After-sale<br>Services   |
|---|---|--|--|---|---|--|
| <ul style="list-style-type: none"> <li>● Gather land information</li> <li>● Formulate initial concept</li> <li>● Perform market research</li> <li>● Perform internal feasibility study</li> <li>● Perform internal assessment and approval</li> </ul> | <ul style="list-style-type: none"> <li>● Arrange for bidding/<br/>tendering</li> <li>● Receive notice of successful bid/tender</li> <li>● Sign land contract</li> <li>● Obtain land use rights certificate (國有土地使用證)</li> </ul> | <ul style="list-style-type: none"> <li>● Obtain construction land planning permit (建設用地規劃許可證)</li> <li>● Obtain construction works planning permit (建設工程規劃許可證)</li> <li>● Obtain work commencement permit (建築工程施工許可證)</li> <li>● Obtain other relevant government approvals</li> </ul> | <ul style="list-style-type: none"> <li>● Schematic design</li> <li>● Construction design</li> <li>● Mechanical and electrical design</li> <li>● Interior design</li> </ul> | <ul style="list-style-type: none"> <li>● Commence construction</li> <li>● Monitor construction progress</li> <li>● Perform quality inspection</li> <li>● Maintain cost control</li> </ul> | <ul style="list-style-type: none"> <li>● Engage in marketing and promotion</li> <li>● Obtain commercial property pre-sale permit (商品房預售許可證)</li> <li>● Sign, notarise and register pre-sale contract and mortgage</li> <li>● Obtain completion and acceptance certificate (竣工驗收證明)</li> <li>● Obtain delivery certificate (where applicable) (交付使用許可證)</li> </ul> | <ul style="list-style-type: none"> <li>● Register and apply for unit ownership certificate (小產證)</li> <li>● Gather and process customer feedback</li> <li>● Perform customer information analysis</li> <li>● Regular customer visits and activities</li> </ul> |

### Project Selection

In conjunction with our ongoing market and design research, we continuously work to identify and evaluate potential sites for projects. We have a development department dedicated to identifying potential projects. Our development department assesses land parcels for use in potential projects based on our analysis of, among other things:

- size, shape and location of the land parcel;
- local customer demand and expected growth of the city in which the land is located;

- transportation access and infrastructure support;
- project evaluation according to our internal pre-determined criteria;
- development prospects, taking into account social, economic and environmental effects;
- applicable zoning regulations and government preferential policies; and
- government development plans for the relevant site and the neighboring area.

Once our development department decides to acquire a piece of land, the development department generally prepares a feasibility report for approval by the Board.

### **Project Management**

For each project company, we have established seven departments to support the development and management of our projects: our engineering, budgeting, sales, customer service, public utilities, design and finance departments. The manager of each department within the project company reports directly to the project general manager who in turn reports directly to the executive officers in our corporation.

### **Bidding/Tendering for Land**

According to the Regulation on the Grant of State-owned Land Use Rights by Way of Tender, Auction and Putting Up for Bidding (《招標拍賣掛牌出讓國有土地使用權規定》) promulgated on May 9, 2002, effective from July 1, 2002 and amended on September 2, 2009 and renamed as “Regulations on the Assignment of State-owned Land for Construction Use Rights through Competitive Bidding Auction and Listing-for-sale” (《招標拍賣掛牌出讓國有建設用地使用權規定》), all land to be developed for commercial purposes, such as business, tourism, entertainment and commodity residential housing, must be granted by way of tender, auction or bidding. When deciding to whom the land use rights should be granted, the relevant authorities will consider not only the tender price but also the credit history and qualifications of the developer and its tender proposal.

In brief, the procedures to obtain land use rights certificates after July 1, 2002 are as follows:

- The land administration department of the People’s government (人民政府) at county or municipal level (the “Grantor”) issues a notice specifying the terms and conditions of the tender, auction or bidding (the “Sale”), including the amount of deposit payable, the initial bidding price of the land and other criteria that will be considered by the Grantor in determining the successful participant. The notice will generally be issued 20 days in advance of the Sale.
- The Grantor will notify the eligible participants, who comply with the terms and conditions of the notice, to attend the Sale. At the Sale, the eligible participants may make an offer for the land and/or submit a tender document in accordance with the steps prescribed in the notice.
- The Grantor then issues a letter of confirmation to the successful participant. Deposits paid by an unsuccessful participant will be returned.
- The successful participant then enters into a State-owned Land Grant Contract (the “Grant Contract”) with the Grantor in accordance with the terms specified in the letter of confirmation. The deposit paid for participating in the Sale will be used to offset part of the land premium.
- Having fully paid the land premium specified in the Grant Contract, the successful participant registers the land with the Grantor.
- The People’s government (人民政府) at or above county level issues a land use rights certificate when the land premium and the deed tax is fully paid.

On January 7, 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of Property Market (Guo Fa (2010) No.4) (《國務院辦公廳關於促進房地產市場平穩健康發展的通知》), which restricts entities and individuals who have not fully paid land premium or who have breached a land grant contract from participating in future land bidding. On March 8, 2010, the Ministry of Land and Resources published the “Notice on Increasing the Supply of Land for Real Estate Development and Tightening of Regulation” (Guo Tu Zi Fa [2010] No.34) (《關於加強房地產供應和監管有關問題的通知》), according to which, if the entity or individual does not fully pay the land premium, leaves the land idle, hoards and speculates in land or houses, breaches the land grant contract or is not competent to undertake a particular development, such entity or individual will be prevented from participating in future land bidding by the municipal or county department in charge of administration of land and resources.

On April 17, 2010, the State Council issued the Notice on Firmly Preventing Overly Fast Growth of Real Property Prices in Certain Cities (Guo Fa (2010) No. 10) (《國務院關於堅決遏制部分城市房價過快上漲的通知》), which states that apart from adhering to and improving the competitive bidding, auction and listing-for-sale system, the PRC government is considering exploring new land use rights granting mechanisms in order to restrain irrational growth in the land grant prices. These new mechanisms may include “comprehensive bid evaluation” (綜合評標), “one-time bidding” (一次競價) and “mutual bidding” (雙向競價).

As at the date of this Offering Circular, we have not forfeited any land to the PRC government because of any failure to comply with the terms of our land grant contracts.

Pursuant to the Notice on Further Strengthening of Real Estate Credit Administration (Yin Fa [2003] No. 121) (《關於進一步加強房地產信貸業務管理的通知(銀發[2003]121號文)》) issued by the PBOC on June 5, 2003, construction loans are linked to the creditworthiness and financial position of a property developer and the progress of projects. As this notice prohibits commercial banks from advancing loans to fund the payment of land premium, our Directors believe that it has become more difficult for developers in poor standing or a weak financial position to obtain financing for land acquisitions. The Circular on Strengthening the Credit Management for Commercial Real Property (Yin Fa [2007] No. 359) (《中國人民銀行、中國銀行業監督管理委員會關於加強商業性房地產信貸管理的通知(銀發[2007] 359號)》) issued by the PBOC and the CBRC on September 27, 2007 has reiterated the regulation aforesaid.

### **Pre-construction**

According to PRC regulations, once we have obtained the rights to develop a parcel of land, we begin applying for the various permits and licenses that we need in order to begin the construction and sale of our properties. If the land use right is acquired by way of grant, the land grant contract will be a precondition to applications for the following permits and licenses:

- **land use rights certificate** (國有土地使用證). A certification of the right of a party to use a parcel of land;
- **construction land planning permit** (建設用地規劃許可證). A permit formally approving a developer to conduct the survey, planning and design of a parcel of land;
- **construction works planning permit** (建設工程規劃許可證). A certificate giving government approval for a developer’s overall planning and design of the project and allowing a developer to apply for a work commencement permit (建築工程施工許可證);
- **work commencement permit** (建築工程施工許可證). A permit required for the commencement of construction; and
- **pre-sale permit** (商品房預售許可證). A permit authorizing a developer to start the pre-sale of property still under construction.

## **Financing of Projects**

We finance our projects primarily through bank loans, internally generated cash flows, including proceeds from the pre-sale and sale of our projects, and capital raising transactions.

According to guidelines issued by the China Banking Regulatory Commission (“CBRC”), no loan shall be granted to projects which have not obtained the relevant land use rights certificates (國有土地使用證), construction land planning permits (建設用地規劃許可證), construction works planning permits (建設工程規劃許可證) and work commencement permits (建設工程施工許可證). The guidelines also stipulate that not less than 35% of the total investment in a property development project must come from a real estate developer’s own capital for the development project (項目資本金) in order for banks to extend loans to the real estate developer.

Government authorities in China have issued various regulations to govern the financing of development projects, as described in detail in “Regulation”.

Our policy is to finance our property developments with internal resources to the extent practicable so as to reduce the level of external funding required. As at April 30, 2010, our outstanding borrowings from banks amounted to RMB28.4 billion. Please refer to the section headed “Summary Financial Information” for further details of our channels of financing, indebtedness and borrowings.

## **Project Design**

We contract out the project design work for our property developments to a number of established architectural and interior design firms which are selected through a tender process. All of these architectural and interior design firms are independent third parties. To ensure that the project design of each of our development projects reflects the positioning of our products, we also have an internal design team that strictly controls and monitors the design work of our external design firms.

## **Construction**

Construction of our projects usually proceeds phase by phase or block by block as part of our financial management and marketing strategy. Different general contractors may be selected to carry out construction of different phases or blocks in a development, a practice which we consider enables us to better control construction quality, time and cost.

According to the PRC Tender Law (《中華人民共和國招標投標法》), which became effective on January 1, 2000, and the Rules on the Tender Scope and Criteria for Construction Projects (《工程建設項目招標範圍和規模標準規定》), the selection of construction companies with respect to certain construction projects must be carried out using a bidding process. We follow laws and regulations on bidding, the application of which depend on the size of the contract, and we seek to engage reputable contractors and suppliers. We conduct detailed due diligence work on the contractors during the bidding process before offering the construction contracts to them. We typically examine the track record, industry reputation, qualification certificates and other information that are required as part of the bidding process to evaluate the suitability of the contractors who submit bids for our construction contracts.

Our standard construction contracts typically provide for a fixed or a guaranteed maximum price payable by us and include express terms on construction schedule. The construction contracts contain warranties from the contractors in respect of the quality and timely completion of the construction. In the event of delay or poor quality of work, the contractor may be required to pay pre-agreed damages under the relevant construction contract. We require our contractors to comply with PRC laws and



regulations on the quality of construction projects, as well as our own standards and specifications. The contractors are also subject to our quality control procedures, including examination of materials and supplies, on-site inspection and production of progress reports.

Our construction contracts generally provide for progressive monthly payments throughout the construction progress. The remaining balance, except for 5% of the contract sum which we withhold for two years after completion to apply against any expenses incurred as a result of any construction defects, is payable upon satisfactory completion of work. Upon the expiry of the two-year retention period, the balance of the retention amount is paid to the contractor. We have not had any incidences where the retention amount is less than the amount we have to pay for the defects as at the date of this Offering Circular.

We are not responsible for any labor problems of our contractors. As to our risk in relation to environmental, social and safety problems due to non-compliance with applicable PRC laws by the contractors, we may be held responsible for such problems but our construction contracts provide that we may seek indemnification from the contractors for the resulting damages.

We hire professionals in various areas to supervise and manage project quality and construction. We also engage independent engineering supervisory companies to conduct quality and safety control checks on all projects.

### **Quality Control and Construction Supervision**

We are required to engage independent engineering supervisory companies to conduct quality and safety control checks on all building materials, equipment and construction. In addition, we also employ professionals, including designers, quantity surveyors, construction engineers, electrical engineers and water and heat engineers to carry out the functions of quality control and construction supervision for our project companies. We place a strong emphasis on quality control to ensure that our properties comply with relevant regulations and are of a high quality. We require our functional departments, project companies and our construction supervisors to strictly follow these procedures. As part of our quality control procedures, we seek to engage reputable design and construction companies. We obtained ISO 9000 certification in recognition of our quality control in December 1997 and we have successfully renewed this certification each year since.

We directly purchase major building materials, especially those affecting product quality. We do not own any construction equipment and do not maintain any inventory of building materials since the delivery of the building materials are generally scheduled to be on the same day as the installation date. To maintain quality control, we hire independent supervisory companies to inspect the equipment and materials used in our projects to ensure compliance with the contractual specifications before accepting the materials on site and approving payment. Our in-house project management team works closely with the independent supervisory company during quality control and assessment. We reject materials which are below standard or that do not comply with our specifications and return them to the suppliers.

To ensure quality and monitor the progress and workmanship of construction, each project has its own on-site project management team, which comprises qualified engineers led by our project controller. In addition, each of the projects has a construction controller who is responsible for the supervision of the construction of our properties and ensures that our properties meet a specified standard upon completion. The on-site project management team submits a monthly report on the appraisal and inspection of the quality of the work of the supervisory unit and the construction unit. In addition, prior to handing over a property to our customers, our sales and customer service departments, together with our engineers and the relevant property management company, will inspect the property. If our sales and customer service departments find any aspect of our property developments to be unsatisfactory, our sales and customer service departments will record the finding and take immediate action to cure the defect.

According to the provisions of the Regulation on the Quality Management of Construction Projects (《建設工程質量管理條例》), the quality supervision authority of construction projects engaged by the construction administrative department or relevant government authorities shall supervise and manage the quality of the completed projects upon the completion and acceptance of projects.

### **Pre-sale**

According to the Urban Real Property Law (《中華人民共和國城市房地產管理法》) and the Administrative Measures governing the Pre-sale of Urban Real Estate (《城市商品房預售管理辦法》), the following conditions must be fulfilled before the pre-sale of a particular property can commence:

- the land premium must be paid in full and the land use rights certificate must have been obtained;
- the construction works planning permit and the work commencement permit must have been obtained;
- the funds contributed to the development of the project shall amount to at least 25% of the total amount to be invested in the project and the project progress and the date of completion of the project for use must have been ascertained; and
- the pre-sale approval must have been obtained.

We have complied with the relevant statutory requirements for pre-sale, including, but not limited to, requiring all project companies to use a standard pre-sale contract in the form stipulated by the PRC government. For details of the laws and regulations governing pre-sales, please refer to “Regulation”.

### **Sales and Marketing**

We adopt a variety of measures to promote our properties to potential customers, including advertising through outdoor media, print media and the internet, as well as sponsoring performances and holding entertainment activities for the public. We target a broad base of customers with varied income levels and backgrounds. We have both individual and corporate clients from China as well as from abroad. Most of our customers are local customers. We own two real estate brokerages, Beijing Sino-Ocean Jiaye Real Estate Brokerage Co., Ltd. and Beijing Sino-Ocean Property Management, through which we sell and rent our properties. Beijing Sino-Ocean Jiaye Real Estate Brokerage Co., Ltd. is owned as to 38.25%, 36.75% and 25.00% by Sino-Ocean Land Limited (“SOLL”), Beijing Yuankun and Shing Kai International Investment Limited, respectively, and Beijing Sino-Ocean Property Management is owned as to 60%, 15% and 25% by SOLL, Beijing Yuankun and Shing Kai International Investment Limited, respectively.

Our property management subsidiaries also provide professional property consulting advice and extensive after-sales services. See “Rental Properties and Property Management” below. We also provide customers of our residential developments with a membership to our exclusive Ocean Club, which offers members discounts at various retailers, supermarkets and restaurants in various cities and discounts towards future purchases of our properties. We believe that these measures increase public interest in our properties.

### **Handover**

In relation to our properties for sale, after construction is completed, we are required to obtain a completion and acceptance certificate (竣工驗收證明) and other government certificates before we are able to hand over the properties to our customers. As at the date of this Offering Circular, no incidences have occurred where we had to compensate customers for delays in completing deliverables.

## **Payment and End-user Financing**

With respect to both pre-sales and sales, our purchasers can choose either payment by instalments, lump sum payments, bank loans or a loan from the administration authority for the housing accommodation fund.

In line with market practice, we have arrangements with various banks for the provision of mortgage facilities to our purchasers and we provide guarantees for these mortgages generally until completion of construction and the relevant property ownership certificates are lodged with the relevant banks. As at April 30, 2010, the outstanding guarantees of the mortgage loans was RMB2,145 million.

Independent credit checks are conducted by the relevant bank in accordance with their own internal policies. Please refer to “Risk Factors — Risks Relating to our Business — We do not conduct independent credit checks when guaranteeing mortgages taken out by our customers. If a significant number of such guarantees are called upon, our financial condition could be adversely affected”.

## **RENTAL PROPERTIES AND PROPERTY MANAGEMENT**

### **Investment Properties**

As at the date of this Offering Circular, we lease out in the following investment property projects: Ocean International Center (Beijing), Ocean Plaza (Beijing) and Ocean Office Park (Beijing). The rental income from the three investment properties was RMB71 million, RMB122 million, RMB156 million and RMB57 million for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively.

As at April 30, 2010, the investment properties retained by us for rental purposes include offices, car parking spaces and retail units. The total GFA held for rental purposes in respect of office and retail were 184,000 sq.m. and 29,000 sq.m., respectively.

In addition, we have a number of investment properties in development located in Beijing, Tianjin, Dalian, Shenyang and Hangzhou with an aggregate leasable GFA of approximately one million sq.m. We expect to hold these investment properties for long-term rental purposes. We may also decide to sell them after the projects are completed.

In selecting tenants for our properties, we consider whether the profile of our tenants fit into the overall theme of the development projects and we also try to attract commercial tenants that are able to provide expertise in retail management as well as those who could help us promote the image of our rental properties. We also assess whether the tenants have the financial means to sustain long-term rental.

### **Property Management**

Residential projects developed by us and investment properties held by us are managed by our property management companies. We also hire reputable international property management companies, including DTZ Debenham Tie Leung Limited, to provide advisory services. We do not have an internal property management team through which we provide property management services to our customers.

The property management services include maintenance and security of the common areas, gardening and landscaping, cleaning, fire protection and rental agency services. The typical property management contract entered into by our property management companies and the owners of the properties sets out the scope and the quality requirements of the services provided by our property management companies. We prepare maintenance and renovation plans for the properties and public

facilities that we manage. We are not permitted by law to assign the management duties in their entirety to a third party. However, we can outsource some of the responsibilities, such as cleaning and security services, to independent third parties. The property management contracts also set out the management fee arrangements. The property management service fee is paid on an annual basis.

Under PRC law, 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-commercial area of the building. As at the date of this Offering Circular, our property management companies had not been dismissed from the management of any properties.

For the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our revenue from the provision of property management services amounted to RMB145 million, RMB146 million, RMB172 million and RMB71 million, respectively. A total GFA of 2.35 million sq. m., 2.86 million sq. m., 3.72 million sq. m. and 3.95 million sq. m., respectively, were covered by our property management services as at December 31, 2007, 2008 and 2009 and April 30, 2010.

## **SUPPLIERS AND CUSTOMERS**

Our five largest customers of our properties combined accounted for less than 15% of our total sales in the years ended December 31, 2007, 2008 and 2009. We offer our customers the option of paying by lump sum or by installments. Our five largest suppliers combined, including material suppliers and construction contractors, accounted for approximately 12%, 18% and 14% of our total purchases in the years ended December 31, 2007, 2008 and 2009, respectively. The percentages of our total purchases from the largest supplier for the years ended December 31, 2007, 2008 and 2009 were 5%, 5% and 4%, respectively.

## **COMPETITION**

Our existing and potential competitors include major domestic State-owned and private developers and foreign funded real estate developers (including leading developers listed in Hong Kong) who focus on the high-end and/or upper mid-tier property markets in China. Competitive factors include the size of land bank, the geographical location, the types of properties offered, brand recognition by customers, creditworthiness, price and design quality. A number of our competitors have greater financial, marketing, land and other resources than we have, as well as greater economies of scale, broader name recognition, a longer track record and more established relationships in certain markets.

We believe that through our experience in developing large scale, high quality properties and our in-depth understanding of the Chinese real estate market, we will be able to react more quickly when competing with these property developers to identify and secure desirable opportunities.

## **INTELLECTUAL PROPERTY**

Our intellectual property forms an integral basis for our strong brand recognition and is important to our Company's business and profitability. We have several registered trademarks in the PRC and we also hold licenses to use the "Sino-Ocean" brand.

Under Hong Kong and PRC law, a registered trademark owner has exclusive rights in the registered trademark. Any unauthorized use of a registered trademark (unless such use constitutes "fair use" as defined by law) will constitute infringement of the trademark owner's exclusive right.

We have not infringed the intellectual property rights of other parties and have not identified any instances of third parties infringing our intellectual property rights.

## INSURANCE

As required under PRC insurance laws and regulations, our contractors maintain all risks and third party insurance policies for all our properties under construction. We do not maintain insurance policies for properties that have been delivered to our customers. Instead, the relevant management companies will maintain all risks property insurance and public liability insurance for common areas and amenities of these properties. We also maintain, on a voluntary basis, personal accident insurance and supplementary commercial medical insurance for our employees.

## EMPLOYEES

As at April 30, 2010, we had 5,392 full-time employees. The following table shows a breakdown of employees by function as at April 30, 2010:

| Division                                | Number |
|---|--------|
| 1. Senior management                    | 109    |
| 2. Project construction and engineering | 1,186  |
| 3. Sales and marketing                  | 466    |
| 4. Human resources and administration   | 382    |
| 5. Finance and strategic development    | 330    |
| 6. Others                               | 2,919  |

All of our employees are employed under employment contracts. We review the performance of our employees once a year, the results of which are used in his or her annual salary review and promotion appraisal.

All of our employees are considered for an annual bonus based on various performance criteria and their assessment results. Commissions are provided to our sales personnel.

We review our staff remuneration packages every year. We conduct research on remuneration packages offered to similar positions in our industry which we believe allows us to remain competitive in the labor market.

We incurred staff costs (including Directors' emoluments) of approximately RMB239 million, RMB392 million and RMB478 million for the years ended December 31, 2007, 2008 and 2009, and RMB141 million for the four months ended April 30, 2010 representing 4%, 6%, 5% and 6% of our revenue for those periods, respectively.

## ENVIRONMENTAL MATTERS

We are subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by local governments. These include regulations relating to air pollution, noise emissions and water and waste discharge. Each of our property developments is required to undergo environmental assessments and submit the related environmental impact assessment document to the relevant government authorities for approval prior to the commencement of property development. On the completion of each property development, the relevant government authorities inspect the site to ensure that applicable environmental standards have been complied with, and the resulting report is then presented together with other specified documents to the local construction administration authorities for their record. We believe that our operation is in compliance with currently applicable national and local environmental and safety regulations in all material respects.

## **LEGAL PROCEEDINGS**

As at the date of this Offering Circular, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition. We also do not have any material claims or lawsuits with our contractors.

## REGULATION

### LEGAL SUPERVISION RELATING TO PROPERTY SECTOR IN THE PRC

#### A. Establishment of a property development enterprise

Pursuant to the “Law of the People’s Republic of China on Administration of Urban Real Estate” (the “Urban Real Estate Law”) (《中華人民共和國城市房地產管理法》) enacted by the Standing Committee of the National People’s Congress on July 5, 1994, effective in January 1995 and as amended on August 30, 2007, respectively, a property developer is defined as “an enterprise which engages in the development and sale of property for the purposes of making profits”. Under the “Regulations on Administration of Development of Urban Real Estate” (the “Development Regulations”) (《城市房地產開發經營管理條例》) enacted by the State Council and enforced on July 20, 1998, a property development enterprise must satisfy the following requirements: (a) have a registered capital of not less than RMB1 million and (b) have four or more full-time professional property/construction technicians and two or more full-time accounting officers with the relevant qualifications. The Development Regulations also stipulates that People’s government of the provinces, autonomous regions or municipalities directly under the central government may impose more stringent requirements regarding the registered capital and qualifications of professional personnel of a property development enterprise according to the local circumstances.

Pursuant to the Development Regulations, applications for registration of a property development enterprise have to be submitted to the department of administration of industry and commerce. The applicant must file a record with the property development authority in the location of the registration authority within 30 days of the receipt of its business license.

The minimum internal capital ratio for property projects (excluding economically affordable housing projects) was 35% under the “Notice on Adjusting the Portion of Capital Fund for Fixed Assets Investment of Certain Industries” (《關於調整部分行業固定資產投資項目資本金比例的通知》) issued by the State Council on April 26, 2004. In May 2009, the State Council issued a “Notice on Adjusting the Percentage of Capital Fund for Investment Projects in Fixed Assets” (《關於調整固定資產投資項目資本金比例的通知》) and reduced such ratio to 20% for ordinary commodity housing projects and affordable housing projects and 30% for other property projects.

#### B. Foreign-invested real estate enterprises

Pursuant to the “Foreign Investment Industrial Guidance Catalog” (the “Guidance Catalog”) (《外商投資產業指導目錄》) jointly enacted by the MOFCOM and NDRC on November 30, 2004 and enforced on January 1, 2005, the development and construction of ordinary residential units fall within the category of “encouraged industry;” the development of a whole land lot operated by Sino-foreign equity joint ventures or Sino-foreign co-operative joint ventures, and the construction and operation of high-end hotels, villas, premium office buildings, international conference centers and large theme parks fall within the category of “restricted industry”; and other types of property development fall within the category of “permitted industry”. The MOFCOM and NDRC amended the Guidance Catalog in October 2007, which provides that, effective from December 1, 2007, foreign-invested property development business falls within the category of permitted industry, except that foreign investment in the development of a whole land lot which shall be operated only by sino-foreign equity joint ventures or sino-foreign cooperative joint ventures, the construction and operations of high-end hotels, villas, premium office buildings and international conference centers, property transactions in the secondary market and property intermediaries fall within the category of industries in which foreign investment is subject to restrictions. Foreign-invested real estate enterprises can be established in the form of a Sino-foreign equity joint venture, Sino-foreign cooperative joint venture or wholly-owned foreign enterprise according to the Guidance Catalog and other laws and

administrative regulations relating to foreign-invested enterprises. Prior to the application for registration to the department of administration of industry and commerce, the enterprise must be approved by the authorities of commerce and obtain an approval certificate for a foreign-invested enterprise.

On July 11, 2006, the Ministry of Construction, the MOFCOM, the NDRC, the PBOC, the SAIC and the SAFE jointly enacted the “Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market” (Jianzhufang [2006] No. 171) (《關於規範房地產市場外資准入和管理的意見》). According to this circular, foreign investment in property market must comply with the following requirements:

- (a) Foreign institutions or individuals purchasing property in China which is not for their own residential use shall follow the principle of commercial existence and apply for the establishment of a foreign-invested enterprises under the regulations of foreign investment in property. Foreign institutions and individuals can only carry on their business pursuant to the approved business scope after obtaining the approvals from relevant authorities and upon completion of the relevant registrations.
- (b) If the total investment of a foreign-invested real estate development enterprise exceeds or equals US\$10 million, the registered capital must not be less than 50% of the total investment. If the total investment is less than US\$10 million, the amount of the registered capital shall follow the existing regulations.
- (c) The commerce authorities and the department of administration of industry and commerce are in charge of granting approval for establishing and effecting the registration of foreign-invested real estate enterprises and issuing approval certificates for foreign-invested enterprises and business licenses which are only effective for one year. After paying for the land use right, the enterprises should apply for the land use rights certificate by presenting the above-mentioned approval certificates and business licenses. With the land use rights certificate, the enterprises will receive an official approval certificate for a foreign-invested enterprise from the commerce authorities, and shall replace the business license with one that has the same operational term as the formal approval certificate for foreign-invested enterprises in the department of administration of industry and commerce, and then apply for tax registration with the tax authorities.
- (d) Transfers of projects of or shares in foreign-invested real estate enterprises, and the acquisitions of domestic real estate enterprises by foreign investors should strictly follow the relevant laws, regulations and policies to obtain approvals. Foreign investors should submit: (i) the guarantee letters for the performance of the State-owned Land Use Rights Grant Contracts, the Construction Land Planning Permit and the Construction Work Planning Permit; (ii) the Certificate of Land Use Rights; (iii) the certification on alteration of archival files issued by construction authorities; and (iv) the certification on the payment of tax issued by the relevant tax authorities.
- (e) When acquiring domestic real estate enterprises by way of share transfer or otherwise, or purchasing shares from Chinese parties in Sino-foreign equity joint ventures, foreign investors should make proper arrangement for the employees, settle the bank loans and pay the consideration in one single payment with its internal fund. Foreign investors with irregular financial track records shall not be allowed to conduct any of the aforementioned activities.



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

- (i) foreign investment in the PRC property sector relating to luxury properties should be strictly controlled;
- (ii) before obtaining approval for the establishment of property entities with foreign investment, (a) both the land use rights certificates and housing ownership right certificates should have been obtained, or (b) contracts for obtaining land use rights or housing ownership rights should be entered into;
- (iii) entities which have been set up with foreign investment need to obtain approval before they expand their business operations into property development, and entities which have been set up for property development operations need to obtain new approval in order to expand their property business operations;
- (iv) acquisitions of property entities and foreign investment in the property sector by way of “round-trip” investment (返程投資) should be strictly regulated. Foreign investors should not avoid approval procedures by changing actual controlling persons;
- (v) parties to property entities with foreign investment should not in any way guarantee a fixed investment return;
- (vi) registration shall be immediately effected according to applicable laws with the MOFCOM regarding the set-up of property entities with foreign investment approved by local PRC governmental authorities;
- (vii) foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not effectuate foreign exchange settlements regarding capital account items to those who fail to file with the MOFCOM or fail to pass the annual reviews; and
- (viii) for those property entities who are wrongfully approved by local authorities for their set ups, (a) the MOFCOM should carry out investigation and order punishment and corrections, and (b) foreign exchange administrative authorities should not carry out foreign exchange registrations for them.

On July 10, 2007, the General Affairs Department of the SAFE issued the “Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment That Have Properly Registered with the MOFCOM” (《關於下發第一批通過商務部備案的外商投資房地產專案名單的通知》) (“Notice No. 130”). This new regulation restricts the ability of foreign-invested property companies to raise funds offshore for the purposes of injecting such funds into the companies either through a capital increase or by way of shareholder loans. Notice No. 130 stipulates, among other things, that:

- (A) the SAFE will no longer process foreign debt registrations or applications for purchase of foreign exchange submitted by real estate enterprises with foreign investment that obtained authorization certificates from and registered with the MOFCOM on or after June 1, 2007; and

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

In June 2008, to strengthen regulation of real estate enterprises with foreign investment, the MOFCOM issued the “Notice Regarding Completing the Registration of Foreign Investment in the Real Estate Sector” (《關於做好外商投資房地產業備案工作的通知》) (“Notice No. 23”). According to Notice No. 23, when a foreign-invested real estate enterprise is established, increases its registered capital, transfers its shares, merges with or acquires another enterprise, the provincial level MOFCOM is required to verify all records regarding such foreign-invested real estate enterprise. Notice No. 23 also requires that each foreign-invested real estate enterprise undertake only one approved property project.

On August 29, 2008, the SAFE issued the “Circular on the Relevant Operating Issues Concerning Improving the Administration of Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises”, or “Circular No. 142 (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》)”. Pursuant to Circular No. 142, Renminbi fund from the settlement of foreign currency capital of a foreign-invested enterprise must be used within the business scope of the enterprise as approved by the examination and approval department of the government, and cannot be used for domestic equity investment unless it is otherwise provided for in other regulations.

Under the Guidance Catalog, real estate enterprises with foreign investment are restricted from developing whole land lots and constructing and operating high-end hotels, villas, premium office buildings, international conference centers, golf courses and large theme parks in China. According to the “Interim Provisions on Approving Foreign-Invested Projects” (《外商投資項目核准暫行管理辦法》) promulgated by the NDRC in October 2004, local authorities may examine and approve (i) foreign-invested projects with total investment less than US\$100 million within the category of encouraged or permitted foreign investments and (ii) foreign-invested projects with total investment less than US\$50 million within the category of foreign investments subject to restrictions. Approval from the NDRC is required for foreign-invested projects with total investment of US\$100 million or more within the category of encouraged or permitted foreign investments and those with total investment of US\$50 million or more within the category of foreign investments subject to restrictions. Further, apart from examination by the NDRC, approval from the State Council is required for foreign-invested projects with total investment of US\$500 million or more within the category of encouraged or permitted foreign investments and those with total investment of US\$100 million or more within the category of foreign investments subject to restrictions. Additional approval from the development and reform authority at provincial level is required for projects that are subject to restrictions. In July 2008, the NDRC issued the “Notice on Further Reinforcing and Regulating the Administration of Foreign-Invested Projects”, (《關於進一步加強和規範外商投資項目管理的通知》) which requires that any capital increase and reinvestment in projects by foreign-invested enterprises should obtain approval from the NDRC or its local counterpart. On July 16, 2004, the State Council issued the Decision of the State Council on Reforming the Investment System and Catalogue of Investment Projects Approved by the Government (2004) (the “Decision and Catalogue”). According to the Decision and Catalogue, as to foreign investment projects, encouraged or permitted projects with a total investment (including increased capital) of US\$100 million or above and restricted projects with a total investment (including increased capital) of US\$50 million or above as prescribed in the Guidance Catalog are subject to the approval of the National Development and Reform Commission. Issues in relation to the establishment and alteration of foreign investment enterprises involving the administration on quota and license, the total investment of which is above the State-prescribed quotas and in which the investment is restricted; and the material changes (including increase and decrease of capital, transfer of

shares and mergers) as prescribed by the contract and/or articles of association of a large foreign-invested project and laws, are subject to the examination and approval of the Ministry of Commerce. Foreign-invested projects other than the aforesaid projects are subject to the examination and approval of local governments in accordance with relevant regulations.

On April 6, 2010, the State Council released the “Several Opinions of the State Council on Further Doing a Good Job in the Utilization of Foreign Investment” (《國務院關於進一步做好利用外資工作的若干意見》), under which, foreign-invested projects with a total investment (including increased registered capital) less than US\$300 million within the category of encouraged or permitted foreign investment, other than the projects required by the Category of Investment Projects Examined and Approved by the Government to be examined and approved by relevant departments under the State Council, can be examined and approved by the relevant local authorities. Except for approvals from the relevant departments under the State Council that are explicitly specified by laws and regulations, departments aforesaid can shift the authority of approving to the relevant local authority, is in the context of strengthened supervision.

On May 4, 2010, the NDRC that are issued the “Circular of the National Development and Reform Commission on Doing a Good Job in Delegating the Power to Verify Foreign-invested Projects”. According to this circular, foreign-invested projects with a total investment less than US\$300 million within the category of encouraged or permitted foreign investment, which was examined and approved by NDRC formerly, except for the projects required by the Category of Investment Projects Examined and Approved by the Government to be examined and approved by relevant departments under the State Council, can be examined and approved by provincial development and reform committee. But the authority of approving the projects within the category of foreign investment subject to restriction is not delegated and special regulations in respect to the approving of projects stipulated in other laws and regulations or State Council documents should be complied with.

On June 10, 2010, the MOC issued the “Circular of the Ministry of Commerce on Issues Concerning Delegating the Examination and Approval Authority for the Foreign Investment”. According to this circular, commercial departments of provinces, autonomous regions, municipalities directly under the Central Government, cities specifically designated in the state plan, and Xinjiang Production Construction Corps and sub-provincial cities (including Ha Erbing, Changchun, Shenyang, Jinan, Nanjing, Hangzhou, Guangzhou, Wuhan, Chengdu, and Xian) are in charge of the examination and approval and management of the issues relating to establishment and changes of the foreign-invested enterprise which falls within the category of encouraged or permitted investment with a total investment less than US\$300 million or restricted investment with a total investment less than US\$50 million as prescribed in the Guidance Catalog. Issues relating to increases of capital where the increment is less than the State-prescribed quotas are subject to the examination, approval and management of the local authority.

### **C. Qualifications of a property developer**

#### **(a) *Classifications and assessment of a real estate development enterprise’s qualification***

Under the “Provisions on Administration of Qualifications of Real Estate Developers” (the “Provisions on Administration of Qualifications”) (《房地產開發企業資質管理規定》) promulgated by the Ministry of Construction in March 2000, a property developer shall apply for registration of its qualifications according to the Provisions on Administration of Qualifications. An enterprise may not engage in the development and sale of property without a qualification classification certificate for property development.

In accordance with the Provisions on Administration of Qualifications, property developers are classified into four classes. Developers with class 1 qualifications shall be subject to preliminary examination and approval by the construction authority under the People’s government of the

relevant province, autonomous region or municipality directly under the central government and then final approval by the construction authority under the State Council. Procedures for approval of developers with class 2 or lower qualifications shall be formulated by the construction authority under the People's government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. After a newly established property developer reports its establishment to the property development authority, the latter shall issue a provisional qualification certificate to the eligible developer within 30 days of receipt of the report. The provisional qualification certificate shall be effective for one year from the date of its issuance. The property development authority can extend the validity period for not more than two years after considering the actual business condition of the enterprise. The property developer shall apply for a qualification classification by the property development authority within one month before the expiry of the provisional qualification certificate.

**(b) *Business scope of a property developer***

Under the Provisions on Administration of Qualifications, a developer of any qualification classification may only engage in the development and sale of property within its approved scope of business and may not engage in business which is limited to another classification. A class 1 property developer is not restricted as to the scale of a property project to be developed and may undertake a property development project anywhere in the country. A class 2 property developer or lower may undertake a project with a GFA of less than 250,000 sq.m. and the specific scope of business shall be as confirmed by the construction authority under the People's government of the relevant province, autonomous region or municipality.

**(c) *Annual inspection of a property developer's qualification***

Pursuant to the Provisions on Administration of Qualifications, the qualification of a property developer shall be inspected annually. The construction authority under the State Council or its authorized institution is responsible for the annual inspection of a class 1 property developer's qualification. Procedures for annual inspection of developers of a class 2 or lower qualification shall be formulated by the construction authority under the People's government of the relevant province, autonomous region or municipality.

**D. Development of a property project**

**(a) *Land for property development***

Under the "Interim Regulations of the People's Republic of China on Assignment and Transfer of the Right to Use State-owned Land in Urban Areas" (the "Interim Regulations on Assignment and Transfer") (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》) promulgated and enforced by the State Council on May 19, 1990, a system of grant and transfer of the right to use state-owned land is adopted. A land user shall pay a premium to the state as consideration for the grant of the land use rights within a certain term, and the land user may transfer, lease, mortgage or otherwise commercially use the land use rights within the term of use. Under the Interim Regulations on Assignment and Transfer and the Urban Real Estate Law, the land administration authority under the local government of the relevant city or county shall enter into a land grant contract with the land user for the grant of the land use rights. The land user shall pay the land premium as provided for by the land grant contract. After payment in full of the land premium, the land user shall register with the land administration authority and obtain a land use rights certificate evidencing the acquisition of land use rights. The Development Regulations provide that land use rights for a site intended for property development shall be obtained through government grant, except for land use rights which may be obtained through allocation pursuant to the PRC laws or the stipulations of the State Council.

Under the “Regulations on the Assignment of State-owned Land Use Rights through Competitive Bidding, Auction and Listing-for-Sale” (《招標拍賣掛牌出讓國有土地使用權規定》) enacted by the Ministry of Land and Resources on May 9, 2002 and enforced on July 1, 2002, land for commercial use, tourism, entertainment and commodity housing development is assigned by way of competitive bidding, public auction or listing-for-sale. The procedures are as follows:

- (i) The land authority under the People’s government of the city and county (the “assignor”) shall make an announcement at least 20 days prior to the date of the proposed competitive bidding, public auction or listing-for-sale. The announcement should include basic particulars such as land parcel, the qualification requirement of the bidder and auction applicants, methods and criteria on confirming the winning tender or winning bidder, and other conditions such as the deposit for the bid.
- (ii) The assignor shall conduct a qualification verification of the bidding applicants and auction applicants, inform the applicants who satisfy the requirements set out in the announcement and invite them to attend the competitive bidding, public auction or listing-for-sale.
- (iii) After determining the winning tender or the winning bidder by either competitive bidding, public auction or listing-for-sale, the assignor and the winning tender or winning bidder shall then enter into a confirmation. The assignor should return the bidding or tender deposits to other bidding or auction applicants.
- (iv) The assignor and the winning tender or winning bidder shall enter into a contract for the grant of state-owned land use rights according to the time and venue set out in the confirmation. The deposit of the bid paid by the winning tender or winning bidder will be used to set off part of the land premium for the grant of the state-owned land use rights.
- (v) The winning tender or winning bidder should apply for the land registration after paying off the land grant premium in accordance with the state-owned land use rights grant contract. The People’s government above the city and county level should issue the “Land Use Permit for State-owned Land”.

On December 30, 2007, the Ministry of Land and Resources issued the Measures for Land Registration, (《土地登記辦法》) which specifies detailed provisions relating to the procedure of the land registration and materials required for such registration.

According to the “Notice of the Ministry of Land and Resources on Strengthening the Administration of Land Supply and Promoting the Sustainable Sound Development of Real Estate Market” (《關於加強土地供應管理促進房地產市場持續健康發展的通知》) enacted by the Ministry of Land and Resources on September 4, 2003, land use for luxurious commodity houses shall be stringently controlled and applications for land use for building villas will not be accepted. On May 30, 2006, the Ministry of Land and Resources issued the “Urgent Notice of Further Strengthening the Administration of the Land” (the “Urgent Notice”) (《關於當前進一步從嚴土地管理的緊急通知》) stipulating that land for property development must be assigned by way of competitive bidding, public auction or listing-for-sale, development projects for villas should not be permitted, and all supply of land for such purposes and the handling of related land use procedure will be ceased from the issuance date of the notice.

Under the Urgent Notice, the land authority should rigidly execute the “Model Text of the State-owned Land Use Rights Assignment Contract” (《國有土地使用權出讓合同示範文本》) and “Model Text of the State-owned Land Use Rights Assignment Supplementary Agreement (for Trial Implementation)” (《國有土地使用權出讓合同補充協議示範文本(試行)》) jointly enacted by the Ministry of Land Resources and the SAIC. The document of the land grant should ascertain the requirement of planning, construction and land use such as the restriction of the dwelling size, plot ratio and the time limit of starting and completion. All these should be agreed in the land use rights grant contract. On May 30, 2008, the Ministry of Land Resources and the

SAIC jointly issued the Notice on Distribution of Model Text of the State-owned Land for Construction Use Rights Assignment Contract (“Model Text of Contract”) (《關於發佈《國有建設用地使用權出讓合同》示範文本的通知》). The Notice replaces the Model Text of the State-owned Land Use Right Assignment Contract and Model Text of the State-owned Land Use Rights Assignment Supplementary Agreement (for Trial Implementation) aforesaid with the new Model Text of Contract enclosed in the Notice.

Under the “Regulations on the Assignment of State-owned Land for Construction Use Rights through Competitive Bidding, Auction and Listing-for-Sale” (《招標拍賣挂牌出讓國有建設用地使用權規定》) enacted by the Ministry of Land and Resource on September 28, 2007, and enforced on November 1, 2007, land for industrial use (including land for warehouses, but not including land for mining), commercial use, tourism, entertainment and commodity housing development or more than two competing users on one piece of land shall be assigned by way of competitive bidding, public auction or listing-for-sale. The assignee should obtain the land use rights certificate after paying off the total premium. The relevant land use rights certificates will not be issued prior to full payment of the appropriate land premium, and no land use rights certificates will be issued pro rata based on partial payment received.

In November 2009, the Ministry of Land and Resources issued a Circular on the Distribution of the Catalog for Restricted Land Use Projects (2006 Version Supplement) and the Catalogue for Prohibited Land Use Projects (2006 Version Supplement) (《關於印發〈限制用地項目目錄(2006年本增補本)〉和〈禁止用地項目目錄(2006年本增補本)〉的通知》), as a supplement to its 2006 version. In this circular, the Ministry of Land and Resources set forth a ceiling for the land granted by local governments for the development of commodity housing as follows: seven hectares for small cities and towns, 14 hectares for medium-sized cities and 20 hectares for large cities.

In November 2009, the Ministry of Finance, the Ministry of Land and Resources, the PBOC, the PRC Ministry of Supervision and the PRC National Audit Office jointly promulgated the Notice on Further Enhancing the Revenue and Expenditure Control over Land Grant (《關於進一步加強土地出讓收支管理的通知》). The notice raises the minimum down payment on land premiums to 50% of the total premium and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions.

On March 8, 2010, the Ministry of Land and Resources promulgated the Circular on Strengthening Real Estate Land Supply and Supervision (the “Circular”) (《關於加強房地產用地供應和監管有關問題的通知》). Under the Circular, the 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 equal to at least 20% of the applicable minimum land premium. The Circular has made further strict provisions on land grant contract administration. The land grant contract shall be entered into within 10 working days after the land grant deal being closed, the down payment of 50% of the land premium (taking into account any deposits previously paid) shall be paid within one month as of the date of land grant contract, and the remaining fee shall be paid in accordance with provisions of the land grant contract within one year.

(b) ***Property project development***

i. *Commencement of a property project and the idle land*

Under the Urban Real Estate Law, those who have obtained the land use rights through an assignment must develop the land in accordance with the terms of use and within the period of commencement prescribed in the land use rights assignment contract. According to the

“Measures on Disposing Idle Land” (《閒置土地處置辦法》) enacted and enforced by the Ministry of Land and Resources on April 28, 1999, land can be defined as idle land under any of the following circumstances:

- (A) where development and construction of the land has not commenced within the prescribed time limit right without consent from the People’s government who approved the use of the land;
- (B) where the “Contract on Paid Use of the Right to Use State-owned Land” or the “Approval Letter on Land Used for Construction” has not prescribed the date for commencing the development and construction, the development and construction of the land has not commenced with one year of the date when the “Contract on Paid Use of the Right to Use State-owned Land” became effective or when the administrative department of land issued the “Approval Letter on Land Used for Construction”;
- (C) where the development and construction of the land has commenced but the area of the development and construction that has commenced is less than one-third of the total area to be developed and constructed or the invested amount is less than 25% of the total amount of investment, and the development and construction have been continuously suspended for one year or more without an approval; or
- (D) other circumstances prescribed by laws and regulations.

After a piece of land has been determined to be idle land, the relevant municipal authority will notify the concerned land user and draft a proposal on methods of disposing of the idle land, including, but not limited to, extending the time period for development and construction (provided that the extension shall be no longer than one year), changing the use of the land, arranging for temporary use and ascertaining a new land user by competitive bidding or public auction. The administrative department of land under the People’s government of city or county level shall, after the proposal on disposal has been approved by the original People’s government who approved the use of the land, arrange for implementation of the proposal. For land which is obtained by assignment and which is within the scope of city planning, if the work has not commenced after one year from the prescribed date for commencement, a surcharge on idle land equivalent to a maximum of 20% of the assignment price may be levied; if the work has not been commenced after two years from the prescribed date for commencement, the land can be confiscated without any compensation. However, the preceding stipulations shall not apply if the delay is caused by force majeure, acts of government or acts of other relevant departments under the government, or by the indispensable preliminary work.

On January 3, 2008, the State Council reiterated the above-mentioned policies in the “Notice on Enhancing the Economical and Intensive Use of Land” (《關於促進節約用地的通知》). This notice states, among other things, that (i) policies in relation to the forfeiture of land use rights without compensation for land which has remained idle for more than two years shall be strictly implemented; (ii) if any land remains idle for one year, an idle land fee of 20% of the relevant land premium shall be levied; (iii) the prohibition of land supply for villa projects shall continue; (iv) the Ministry of Land and Resources and other authorities are required to research and commence the drafting of implementation rules concerning the levy of land added price (增值地價) on idle land; (v) in relation to the supply of residential land, planning conditions such as plot ratio limits and the number and type of flats that can be constructed shall be taken into account in land grant contracts and allocation decisions to ensure that at least 70% of the total land grant for residential development will consist of low rental housing, economy housing, limited pricing housing and units of less than 90 sq.m. in size; and (vi) financial institutions are required to exercise caution when approving financing for any property developer who, after one year from the commencement date stipulated in the land grant contract, fails to complete at least one-third of the development of their project or provide at least 25% of the total investment in the project.

ii. *Planning of a property project*

According to the “Urban and Rural Planning Law of the People’s Republic of China” (replacing the previous “City Planning Law of the People’s Republic of China” (《中華人民共和國城市規劃法》) since January 2008) (《中華人民共和國城鄉規劃法》), the “Administrative Measures on Planning of Grant and Transfer of Urban State-owned Land Use Rights” (《城市國有土地使用權出讓轉讓規劃管理辦法》) enacted by the Ministry of Construction on December 4, 1992 and enforced on January 1, 1993 and the “Notice of the Ministry of Construction on Strengthening the Planning Administration of Grant of State-owned Land Use Rights” (《關於加強國有土地使用權出讓規劃管理工作的通知》) enacted and enforced by the Ministry of Construction on December 26, 2002, after signing an assignment contract, a property developer shall apply for an Opinion on Construction Project’s Site Selection if the land was obtained through government allocation and a Permit for Construction Site Planning from the city and county planning authority with the assignment contract. After obtaining a Permit for Construction Site Planning, a property developer shall organize the necessary planning and the design work with regard to planning and design requirements, and apply for a Permit for Construction Work Planning from city planning authority with the relevant approval documents.

iii. *Construction of a property project*

On November 17, 2007, the General Office of the State Council issued the Circular of on Strengthening and Regulating the Administration on Newly-commenced Projects (Guo Ban Fa [2007] No.64) (《國務院辦公廳關於加強和規範新開工項目管理的通知》), which set forth the conditions that shall be met by various investment projects when they are commenced:

1. the projects are subject to the industrial policies, development and construction plans, land supply policies and market-access criteria of the State.
2. the formalities of approval, ratification or filing of the projects must have been completed.
3. the location and distribution of the projects within the planning area must be in line with the urban and rural planning, and relevant planning approval formalities for the projects have gone through in accordance with urban and rural planning law.
4. the approval of use of the land, which is subject to application, must be obtained, the contract of compensated use of the state-owned land shall have been signed or the decision on the allocation of the state-owned land has been obtained, and the land for the construction of profit-making investment projects shall be gained by means of billing, auction or public listing in accordance with relevant provisions.
5. the examination and approval of environmental impact assessment must have been completed in accordance with the provisions on the category administration of environmental impact assessment as well as examinations and approval of environmental impact assessment at different levels.
6. the energy-saving appraisal and examination of the fixed asset investment projects must have been completed in accordance with relevant provisions.
7. the construction unit must have, prior to the commencement of the construction projects, acquired the construction permit or work-start report in accordance with relevant provisions of the Construction Law, and taken specific measures which can guarantee the quality and safety of the construction projects.
8. the projects must meet other relevant requirements as specified by the laws and regulations of the State.



After obtaining the Permit for Construction Work Planning, a property developer shall apply for a Construction Permit from the construction authority above the county level according to the “Measures for the Administration of Construction Permits for Construction Projects” (《建築工程施工許可管理辦法》) enacted by the Ministry of Construction on October 15, 1999 and revised and enforced on July 4, 2001.

iv. *Completion of a property project*

According to the Development Regulation, the “Regulation on the Quality Management of Construction Projects” (《建設工程質量管理條例》) enacted and enforced by the State Council on January 30, 2000, the “Administrative Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure” (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) enacted by the Ministry of Construction in April 2000 and amended on October 19, 2009 and the “Interim Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure” (《房屋建築工程和市政基礎設施工程竣工驗收暫行規定》) enacted and enforced by the Ministry of Construction on June 30, 2000, after completion of work for a project, a property developer shall apply for the acceptance examination to the property development authority under the People’s government on or above the county level and report details of the acceptance examination, upon which the “Record of acceptance examination upon project completion” is issued. For a housing estate or other building complex project, an acceptance examination shall be conducted upon completion of the whole project and where such a project is developed in phases, separate acceptance examinations may be carried out for each completed phase.

**E. Property transactions**

(a) *Transfer of property*

According to the Urban Real Estate Law and the “Provisions on Administration of Transfer of Urban Real Estate” (《城市房地產轉讓管理規定》) enacted by the Ministry of Construction on August 7, 1995 and revised on August 15, 2001, a property owner may sell, give or otherwise legally transfer a property to another person or legal entity. When transferring a building, the ownership of the building and the land use rights attached to the site on which the building is situated are transferred simultaneously. The parties to a transfer shall enter into a property transfer contract in writing and register the transfer with the property administration authority having jurisdiction over the location of the property within 90 days of the execution of the transfer contract.

Where the land use rights were originally obtained by assignment, the real property may only be transferred on the condition that: (i) the assignment price has been paid in full for the assignment of the land use rights as provided by the assignment contract and a land use rights certificate has been obtained; and (ii) if development is to be carried out according to the assignment contract and is a project in which buildings are being developed, development representing more than 25% of the total investment has been completed or in case of a whole land lot development project, construction work has been carried out as planned, water supply, sewerage, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been levelled and made ready for industrial or other construction purposes. In addition, if the construction of the real property has been completed, the real property should be transferred after the certificate of the housing title is obtained.

If the land use rights were originally obtained by assignment, the term of the land use rights after transfer of the property shall be the remaining portion of the original term provided by the land use rights assignment contract after deducting the time that has been used by the former land users. In the event that the transferee intends to change the use of the land provided in the original assignment contract, consent shall first be obtained from the original assignor and the

planning administration authority under the local government of the relevant city or county and an agreement to amend the land use rights assignment contract or a new land use rights assignment contract shall be signed in order to, *inter alia*, adjust the land use rights assignment price accordingly.

If the land use rights were originally obtained by allocation, transfer of the real property shall be subject to the approval of the government vested with the necessary approval power as required under the regulations of the State Council. If the People's government vested with the necessary approval power approves such a transfer, the transferee shall complete the formalities for transfer of the land use rights, unless the relevant statutes require no transfer formalities, and pay the transfer price according to the relevant statutes.

**(b) *Sale of commodity properties***

Under the “Regulatory Measures on the Sale of Commodity Properties” (《商品房銷售管理辦法》) enacted by the Ministry of Construction on April 4, 2001 and effective June 1, 2001, sale of commodity properties can include both pre-completion and post-completion sales.

**i. *Permit of Pre-completion sale of commodity properties***

According to the Development Regulations and the “Measures for Administration of Pre-completion Sale of Commodity Properties” (the “Pre-completion Sale Measures”) (《城市商品房預售管理辦法》) enacted by the Ministry of Construction on November 15, 1994 and revised on August 15, 2001 and July 20, 2004, respectively, the pre-completion sale of commodity properties shall be subject to a permit system, under which a property developer intending to sell a commodity building before its completion shall make the necessary pre-completion sale registration with the property development authority of the relevant city or county to obtain a permit of pre-completion sale of commodity properties. A commodity building may only be sold before completion provided that: (A) the assignment price has been paid in full for the assignment of the concerned land use rights and a land use rights certificate has been issued; (B) a Permit for Construction Work Planning and a Permit for Construction of Work have been obtained; (C) the funds invested in the development of the commodity properties put to pre-completion sale represent 25% or more of the total investment in the project and the progress of work and the completion and delivery dates have been ascertained; and (D) the pre-completion sale has been registered and a Permit for Pre-completion Sale of Commodity Properties has been obtained. In addition, regulations of certain local governments, such as Guangdong and Tianjing, have set forth additional conditions to be satisfied in connection with the application for a pre-completion sale permit.

According to the “Regulations on Administration of Pre-completion Sale of Commodity Properties of Guangdong Province” (《廣東省商品房預售管理條例》) enacted by the Standing Committee of Guangdong Provincial People's Congress on August 22, 1998 and revised on October 14, 2000, and the “Notice on Adjusting Conditions of Image and Progress for Commodity Building Pre-sale Project in Guangdong Province” (《關於調整我省商品房預售項目工程形象進度條件的通知》) issued by the Guangdong Provincial Construction Bureau in January 2001, the following conditions must be fulfilled in connection with the pre-completion sale of commodity properties in Guangdong: (A) the property developer has obtained a real property development qualification certificate and a business license; (B) the construction quality and safety monitoring procedures have been performed; (C) the structural construction and the topping-out must have been completed in respect of properties of seven or fewer stories, and at least two-third of the structural construction must have been completed in respect of properties of more than seven stories; (D) a special property pre-completion sale account with a commercial bank in the place where the project is located has been opened; and (E) the properties, pre-completion sale project and its land use rights are free from any third party rights. According to the Regulation on Administration of Commodity Properties of Tianjin City (《天津商品房管理

條例》) enforced on December 1, 2002, the following conditions must be satisfied in connection with the application for a pre-completion sale permit for commodity properties in (a) the property developer has obtained a competent qualification certificate and a business license; (b) the land use rights have been obtained legally; (c) authorized investment plan for the construction of the commodity properties, construction works planning permits and construction permits have been obtained; (d) the fees for the infrastructure have been paid; (e) the property service plan or the preparation stage property services contract has been obtained and filed with the relevant authorities; (f) the development and the construction of the commodity properties meet the requirement of the image for commodity building as required by the municipal government; (g) the construction progress plan and completion date have been specified; and (h) the plan for the sale of the commodity properties has completed.

ii. *Management of pre-completion sale proceeds of commodity properties*

According to the Pre-completion Sale Measures, the proceeds obtained by a property developer from the advance sale of commercial houses must be used for the construction of the relevant projects. The specific measures for the supervision on proceeds from the advance sale of commodity properties shall be formulated by the property administration departments.

iii. *Conditions of the sale of post-completion commodity properties*

Under the “Regulatory Measures on the Sale of Commodity Properties (《商品房銷售管理辦法》)”, commodity properties may be put to post-completion sale only when the following preconditions have been satisfied: (A) the real estate development enterprise offering to sell the post-completion properties shall have an enterprise legal person business license and a qualification certificate of a property developer; (B) the enterprise has obtained a land use rights certificate or other approval documents of land use; (C) the enterprise has the permit for construction project planning and the permit for construction; (D) the commodity properties have been completed and been inspected and accepted as qualified; (E) the relocation of the original residents has been well settled; (f) the supplementary essential facilities for supplying water, electricity, heating, gas, communication, etc., have been made ready for use, and other supplementary essential facilities and public facilities have been made ready for use, or the schedule for construction and delivery date thereof have been specified; and (G) the property management plan has been completed.

Before the post-completion sale of a commodity building, a property developer must submit the Real Estate Development Project Manual and other documents showing that the preconditions for post-completion sale have been fulfilled to the property development authority, for its a records.

iv. *Regulations on sale of commodity properties*

According to the Development Regulations and the Pre-completion Sale Measures, for the pre-completion sale of a commodity property, the developer shall sign a contract on the pre-sale of the commodity property with the purchaser. The developer shall, within 30 days after signing the contract, apply for registration and recording of the contract for pre-completion sale of commodity property to the relevant administrative departments governing the property and the land administration department of the city or county governments. The property administration departments are supposed to take the initiative to apply network information technology to gradually implement web-based registration of pre-sale contracts.

Pursuant to the “Circular of the General Office of the State Council on Forwarding the Opinion of the Ministry of Construction and Other Department on Doing a Good Job of Stabilizing House Prices” (《國務院辦公廳轉發建設部與關於做好穩定住房價格工作意見的通知》) on May 9, 2005, there are several regulations concerning sales of commodity properties:

- The buyer of a commodity building is prohibited from conducting any transfer of the pre-sale of the commodity building that he has bought but is still under construction. Before completion and delivery of an advance sale commodity building to the advance buyer, and before the advance buyer obtains the individual property ownership certificate, the property administration department shall not handle any transfer of the commodity building. If there are any discrepancies in the name of the applicant for property ownership and the name of the advance buyer in the advance sales contract, the property ownership registration administration shall not records the application of real estate ownership.
- A real-name system for house purchases should be applied; and an immediate archival filing network system should be carried out for the pre-sale contracts for commodity properties.

On July 6, 2006, the Ministry of Construction the NDRC and the SAIC jointly enacted a “Notice on Reorganizing and Regulating Order in the Real Estate Transactions” (《關於進一步整頓規範房地產交易秩序的通知》), the details of which are as follows:

- The developer should start to sell the commodity properties within 10 days after receiving a “Permit for Pre-completion Sale of Commodity Properties”. Without this permit, the pre-completion sale of commodity properties, as well as subscription (including reservation, registration and number-selecting) and acceptance of any kind of pre-sale payments, is forbidden.
- The property administration authority should establish an immediate network system for pre-sale contracts for commodity properties and a system for the publication of property transaction information. The basic information of the commodity building, the schedule of the sale and the ownership status should be duly, truly and fully published in the network system and on the locale of sale. The advance buyer of a commodity building is prohibited from conducting any transfer of the advance sale of the commodity building that he has bought but is still under construction.
- Without the “Permit for Pre-completion Sale of Commodity Properties”, no advertisement of the pre-completion sale of commodity properties can be published.
- Real estate enterprises with a record of serious irregularity or enterprises which do not satisfy the requirements of pre-completion sale of commodity properties are not allowed to take part in sale activities.
- The property administration authority should strictly carry out the regulations for the pre-completion sale contract registration and records and apply the real name system for property purchase.

In April 2010, the Ministry of Housing and Urban-Rural Development issued the Notice on Issues Relating to the Further Strengthening of Real Estate Market Regulation and Improvement of the Pre-selling System for Commodity Housing (《關於進一步加強房地產用地供應和監管有關問題的通知》), which stipulates: (i) a property developer should disclose, within 10 days of the receipt of a pre-sale permit, all the properties approved for pre-sale and the price of each unit, and should sell the properties at prices which are the same as the prices submitted in the pre-sale proposal; and (ii) the plan for pre-completion sale of commodity properties submitted by the property developer with provisional qualification certificate when applying for the Permit for Pre-completion Sale of Commodity Properties should identify a body bearing all responsibilities relating to the qualification of the commodity property after the bankruptcy, and such body should submit a letter of guarantee.

(c) *Mortgages of property*

Under the Urban Real Estate Law and the “The Security Law of the People’s Republic of China” (《中華人民共和國擔保法》) enacted by the Standing Committee of the National People’s

Congress on June 30, 1995 and enforced on October 1, 1995, and the “Measures on the Administration of Mortgage of Buildings in Urban Areas” (《城市房地產抵押管理辦法》) enacted by the Ministry of Construction in May 1997 and revised on August 15, 2001, mortgage refers to the act of a debtor, or a third party, who, without transferring the occupancy of the properties, charge those properties as security for the creditor’s rights. When the debtor fails to pay his debt, the creditor has a right to obtain compensation, in accordance with the stipulations of this law, by converting the properties into money or seek preferential payments from the proceeds of the auction or sale of the concerned properties. The creditor’s rights that the mortgagor mortgaged shall not exceed the value of the properties mortgaged. After being mortgaged, the balance of value of the properties that exceeded the creditor’s rights can be mortgaged for a second time, but the sum of the mortgage shall not exceed the value of the balance. When a mortgage is created on the ownership of a building on state-owned land legally obtained, a mortgage shall be simultaneously created on the land use rights of the land on which the building is erected. When the land use rights of state-owned lands acquired through means of assignment is mortgaged, the buildings on the land shall also be mortgaged at the same time. The land use rights of town and village enterprises cannot be mortgaged individually. When the buildings of the town and village enterprises are mortgaged, the land use rights occupied by the buildings shall also be mortgaged at the same time. The mortgagor and the mortgagee shall sign a mortgage contract in writing. Within 30 days after a property mortgage contract has been signed, the parties to the mortgage shall register the mortgage with the property administration authority at the location where the property is situated. A real estate mortgage contract shall become effective on the date of conclusion of the real estate mortgage contract. If a mortgage is created on the real estate in respect of which a property ownership certificate has been legally obtained, the registration authority shall make an entry under the “third party rights” item on the original real estate ownership certificate and then issue a Certificate of Third Party Rights to Real Estate to the mortgagee. If a mortgage is created on the commodity building put to pre-completion sale or under construction, the registration authority shall record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved shall re-register the mortgage of the real property after the issuance of the certificates evidencing the ownership of the property.

(d) *Lease of buildings*

Under the Urban Real Estate Law and the “Measures for Administration of Leases of Buildings in Urban Areas” (《城市房屋租賃管理辦法》) enacted by the Ministry of Construction on May 9, 1995 and enforced on June 1, 1995, the parties to a lease of a building shall enter into a lease contract in writing. A system has been adopted for registering leases of buildings. When a lease contract is signed, amended or terminated, the parties shall register the details with the property administration authority under the local government of the city or county in which the building is situated.

**F. Property Financing**

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

- (a) the property loan by commercial banks to real estate enterprises shall be granted only under the title of “property development loan” and it is strictly forbidden to extend such loans as current capital loan for a property development project or other loan item. No lending of any type shall be granted to enterprises which have not obtained the land use rights certificates, construction land planning permit, construction works planning permit and work commencement permit;
- (b) commercial banks shall not grant loans to property developers to pay off land premium;

- (c) commercial banks shall not advance current capital loans to property developers; commercial banks shall not advance loans to property developers of which capital is less than 30% of the total investment of the project; and
- (d) commercial banks may only provide mortgage loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his first residential unit, the down payment remains at 20%. In respect of his loan application for the additional purchase of residential unit(s), the percentage of the first installment shall be increased.

Pursuant to the “Guidance on Risk Management of Property Loans of Commercial Banks” (《商業銀行房地產貸款風險管理指引》) issued by China Banking Regulatory Commission on September 2, 2004, any property developer applying for property development loans shall have at least 35% of the capital funds required for the development.

According to the “Notice of the People’s Bank of China on the Adjustment of Commercial Bank Housing Loan Policies and the Interest Rate of Excess Reserve Deposit”, (《中國人民銀行關於調整商業銀行住房信貸政策和超額儲備金存款利率的通知》) enacted by the PBOC on March 16, 2005, starting from March 17, 2005, the down payment for individual homes increased from 20% to 30% in cities and areas where property prices grow too quickly. The commercial banks can independently determine scope of such property price rise according to specific situations in different cities or areas.

On May 24, 2006, the State Council passed the “Opinion of the Ministry of Construction and Other Departments on Adjusting the Housing Supply Control Structure and Stabilizing the Property Prices” (《關於調整住房供應結構穩定住房價格的意見》). The regulations provide the following:

- (a) The tightening of the control of advancing loan facilities. The commercial banks are not allowed to advance their loan facilities to property developers who do not have the required 35% or more of the total capital for the construction projects. The commercial banks should be prudent in granting loan facilities and revolving credit facilities in any form to the property developers who have a large number of idle land and unsold commodity properties. Banks should not accept mortgages of commodity properties remaining unsold for three years or longer.
- (b) From June 1, 2006 and onward, purchasers need to pay a minimum of 30% of the purchase price as down payment, except for apartments with a floor area of 90 sq.m. or less for residential purposes, for which the existing requirement of 20% of the purchase price as down payment remains unchanged.

On July 22, 2006, the China Banking Regulatory Commission (中國銀行業監督管理委員會) promulgated a Notice on Further Strengthening the Administration of Real Estate Credit (《關於進一步加強房地產信貸管理的通知》). The notice requests (i) improving the credit risk classification system for all kinds of real estate loans; (ii) prohibiting providing loans to disqualified real estate developers whose own capital is less than 35% of the total capital required for the projects (not including affordable housing), or who have not obtained the “four certificates”; (iii) setting the loan term appropriately, and not allowing the provision of working capital loans in the name of real estate development loans; (iv) strictly restricting new loans for those developers who hoard land or housing and disturb market order; (v) preventing developers from obtaining loans by project split-up or rolling-ahead development strategies; and (vi) enhancing management after providing loans. All financial institutions must provide loans strictly in accordance with the real estate project progress and strengthen overall supervision of the whole process of loan utilization by developers. According to the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market,

foreign-invested real estate enterprises which have not paid up their registered capital fully, or failed to obtain a land use rights certificate, or with under 35% of the capital for the project, will not be allowed to obtain a loan in or outside China, and foreign exchange administration departments will not approve any settlement of foreign loans by such enterprises.

On July 10, 2007, SAFE issued a circular indicating that, for foreign-invested enterprises in the property sector, it would not process any foreign debt registration or conversion of foreign debt that was approved by the local MOFCOM and filed with the MOFCOM after June 1, 2007. See “— B. Foreign-invested real estate enterprises”.

On September 27, 2007, the PBOC and the CBRC issued the “Circular on Strengthening the Credit Management for Commercial Real Property” (《關於加強商業性房地產信貸管理的通知》), with a supplement issued in December 2007. The circular aims to tighten the control over property loans from commercial banks to prevent excessive credit granting. The measures adopted include:

- for a first time home buyer, increasing the minimum amount to 30% of the purchase price as down payment where the property has a unit floor area of 90 sq.m. or more and the purchaser is buying the property for their own residence;
- for a second time home buyer, increasing (i) the minimum amount of down payment to 40% of the purchase price and (ii) the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark bank lending interest rate. If a member of a family (including the buyer, his/her spouse and their children under 18) finances the purchase of a residential unit, any member of the family that buys another residential unit with loans from banks will be regarded as a second time home buyer;
- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment to 50% of the purchase price, (iii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark bank lending interest rate and (iv) limiting the terms of such bank loans to no more than 10 years, although commercial banks are allowed flexibility based on its risk assessment;
- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45% of the purchase price, with the other terms to be decided by reference to commercial properties; and
- prohibiting commercial banks from providing loans to property developers who have been found by relevant government authorities to be holding excessive amounts of land and properties.

In addition, commercial banks are also prohibited from providing loans to projects that have less than 35% of capital funds (proprietary interests), or where there is failure to obtain land use rights certificates, construction land planning permits, construction works planning permits and construction permits. Commercial banks are also prohibited from accepting commercial premises that have been vacant for more than three years as collateral for loans. In principle, property development loans provided by commercial banks should only be used for projects in areas where the commercial bank is located. Commercial banks may not provide loans to property developers to finance the payment of land use rights grant fees.

On July 29, 2008, the PBOC and the CBRC issued the “Notice on Promoting Economization of Land Use in Finance” (Yin Fa [2008] No. 214) (《關於金融促進節約集約用地的通知》), under which, commercial banks are prohibited from providing loans (i) for projects that fall within the Catalogue for Prohibited Land Use Project (and, if extended, any such loan must be withdrawn

gradually); (ii) to property developers to finance the payment of land use rights grant fees; (iii) to property developers that hold idle land for two years and prohibited commercial banks from extending other loans (including asset management business) secured by such idle land to the property developers.

In addition, commercial banks are required to be prudent when extending loans for restricted land use projects and when extending loans to the property developers where the development and construction of the land has not commenced within the prescribed time in the land grant contract or where the development and construction of the land has commenced but the area of the development and construction that has commenced is less than one-third of the total area to be developed and constructed or the invested amount is less than 25% of the total amount of investment.

According to the notice on “Issues on Enlarging the Floating Range of the Downward Movement of Interest Rates for Individual Mortgage Loans” (《關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知》) issued by the PBOC on October 22, 2008 and effective on October 27, 2008, the PRC government lowered the minimum interest rate for individual mortgage loans to 70% of the corresponding PBOC benchmark bank lending rates. Further, the minimum down payment ratio of residential properties was lowered to 20%.

In January 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of Property Market (《關於促進房地產市場平穩健康發展的通知》), adopting a series of measures to strengthen and improve the regulation of the property market, stabilize market expectations and facilitate the stable and healthy development of the property market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of property, restrain speculation of property, and strengthen risk prevention and market supervision. Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), that has already purchased a residence through mortgage financing and has applied to purchase a second or additional residences through mortgage financing, to pay a minimum down payment of 40% of the purchase price. In April 2010, the State Council issued the circular on Restraining the Housing Price from Increasing Rapidly for Some Cities (《關於堅決遏制部分城市房價過快上漲的通知》) which provides the following:

- a household (including the borrower, his or her spouse and any minor children) that borrows a mortgage loan for the purchase of its first residential property, of which the building area is more than 90 square meters, must make a down payment of not less than 30% of the purchase price;
- a household that borrows a mortgage loan for the purchase of its second residential property must make a down payment of not less than 50% of the purchase price and pay a mortgage rate which is not lower than 110% of the benchmark interest rate;
- the down payment proportion and mortgage rate applicable to the purchase of a household’s third residential property or beyond shall be significantly increased at the sole discretion of the commercial banks according to their risk controlling principles;
- in regions where commodity housing prices are too high, have increased too rapidly or where commodity housing is in short supply, commercial banks may suspend the grant of mortgage loans to any third-time (or beyond) home buyers if they deem it appropriate according to the risks involved, and may suspend the grant of mortgage loans to any non-local home buyers who are unable to provide proof of payment of local taxes or social security contributions covering a period of one year or more. Local governments may, based on the circumstances, impose temporary restrictions during a certain period of time on the number of properties that can be purchased;



- commercial banks are prohibited from providing loans for new development projects to real estate developers who have been found to be leaving their land idle and speculating on land.

## **G. Insurance of a property project**

There are no mandatory provisions in the PRC laws, regulations and government rules which require a property developer to take out insurance policies for its property projects.

In light of the “Construction Law of the People’s Republic of China” (《中華人民共和國建築法》) enacted by the Standing Committee of the National People’s Congress on November 1, 1997 and enforced on March 1, 1998, construction enterprises must maintain accident and casualty insurance for workers engaged in dangerous operations. In the “Opinions of the Ministry of Construction on Strengthening the Insurance of Accidental Injury in the Construction Work” (《關於加強建築意外傷害保險工作的指導意見》) enacted by the Ministry of Construction on May 23, 2003, the Ministry of Construction further emphasized the importance of insurance to cover accidental injury in construction work and put forward detailed guidance.

Construction companies shall pay the insurance premium at their own costs and take out various types of insurance to cover their liabilities, such as property risks, third party liability risk, performance guarantee in the course of construction and all-risks associated with the construction and installation work throughout the construction period. The requirements for insurance for all the aforementioned risks shall cease immediately after the completion and acceptance upon inspection of construction.

## **H. Major taxes applicable to property developers**

### **(a) *Income tax***

According to the “Income Tax Law of The People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises” (《中華人民共和國外商投資企業和外國企業所得稅法》) enacted by National People’s Congress on April 9, 1991 and enforced on July 1, 1991 and its detailed rules enacted by the State Council on June 30, 1991, the rate of enterprise income tax for foreign-invested enterprises and enterprise income tax for entities and premises engaged in production and operation by foreign enterprises in China is 30%, and the rate of local income tax is 3%.

Pursuant to the “Provisional Regulations of the People’s Republic of China on Enterprise Income Tax” (《中華人民共和國企業所得稅暫行條例》) issued by the State Council on December 13, 1993 and enforced on January 1, 1994 and its Implementation Rules enacted by the Ministry of Finance (“MOF”) on February 4, 1994, the income tax rate applicable to Chinese enterprises other than foreign-invested enterprises and foreign enterprises is 33%.

According to the “PRC Enterprise Income Tax Law” (《中華人民共和國企業所得稅法》) enacted by the National People’s Congress on March 16, 2007 and enforced from January 1, 2008 onwards, a uniform income tax rate of 25% will be applied towards foreign-invested enterprises and foreign enterprises which have set up production and operation facilities in the PRC as well as PRC enterprises.

Furthermore, unlike the Income Tax Law of the People’s Republic of China for Enterprise with Foreign investment and Foreign Enterprise currently in effect, which specifically exempts withholding tax on any dividends payable to non-PRC investors, the PRC Enterprise Income Tax Law and its implementation provide that an income tax rate of 10% will normally be applicable to dividends payable to non-PRC enterprise investors which are derived from sources within the PRC, unless there exists a tax treaty between the PRC and the relevant jurisdictions in which such non-PRC enterprise shareholders reside, whereupon the relevant tax may be reduced or exempted.

(b) *Business tax*

Pursuant to the “Interim Regulations of the People’s Republic of China on Business Tax” enacted by the State Council on December 13, 1993 and enforced on January 1, 1994 as amended on November 10, 2008 and its “Detailed Implementation Rules on the Provisional Regulations of The People’s Republic of China on Business Tax” issued by the Ministry of Finance on December 25, 1993 and as amended on December 18, 2008, the tax rate on transfer of immovable properties, their superstructures and attachments is 5%.

(c) *Land appreciation tax*

According to the requirements of the “Provisional Regulations of The People’s Republic of China on Land Appreciation Tax” (the “Land Appreciation Provisional Regulations”) (《中華人民共和國土地增值稅暫行條例》) which was enacted on December 13, 1993 and became effective on January 1, 1994, and the “Detailed Implementation Rules on the Provisional Regulations of The People’s Republic of China on Land Appreciation Tax” (the “Land Appreciation Detailed Implementation Rules”) (《中華人民共和國土地增值稅暫行條例實施細則》) which was enacted and enforced on January 27, 1995, any appreciation gained from taxpayer’s transfer of property shall be subject to LAT. LAT is set at four different rates: 30% on appreciation not exceeding 50% of the sum of deductible items; 40% on appreciation exceeding 50% but not exceeding 100% of the sum of deductible items; 50% on appreciation exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% on appreciation exceeding 200% of the sum of deductible items. The deductible items include the following:

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

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

- for ordinary standard residential properties (i.e. residential properties built in accordance with the local standard for general civilian residential properties and not deluxe apartments, villas, resorts etc. where the appreciation amount does not exceed 20% of the sum of deductible items;
- where property taken over and repossessed according to laws due to the construction requirements of the State;
- due to individuals who relocate as a result of redeployment of work or improvement of living standards from originally self-used residential property, but only where they have been living for five years or more, and after obtaining tax authorities’ approval;
- for property transfer contracts which were signed before January 1, 1994, whenever the properties are transferred, LAT shall be exempted; and

- if the property development contracts (房地產開發合同) were signed before January 1, 1994 or the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, LAT shall be exempted if the properties are transferred for the first time within five years after January 1, 1994. The date of signing the contract shall be the date of signing the sale and purchase agreement. For particular property projects approved by the Government for the development of the entire piece of land and long-term development, if the properties are transferred for the first time after the five-year tax-free period, after auditing being conducted by the local financial and tax authorities, and approved by the MOF and the State Administration of Taxation, the tax-free period would be appropriately prolonged.

On December 24, 1999, the MOF and the State Administration of Taxation issued the “Notice in respect of the Extension of the Period for the Land Appreciation Tax Exemption Policy (《關於土地增值稅優惠政策延期的通知》)”, extending the period for the LAT exemption policy as mentioned in the last bullet above to the end of 2000.

After the issuance of the Land Appreciation Provisional Regulations and the Land Appreciation Detailed Implementation Rules, due to the relatively long period required for property development and transfer, many districts, while they were implementing the regulations and rules, did not mandatorily require the real estate enterprises to declare and pay LAT. Therefore, in order to assist the local tax authorities in the collection of LAT, the MOF, State Administration of Taxation, the Ministry of Construction and the Ministry of Land and Resource had separately and jointly issued several notices to restate the following: after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the property is located, and pay LAT in accordance with the amount as calculated by the tax authority and within the specified time limit. For those who fail to acquire proof of tax payment or tax exemption from the tax authorities, the property administration authority shall not process the relevant title change procedures, and shall not issue the property title certificate.

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

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

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

(a) *Tax Collection and Exemption in the Sale of Ordinary Standard Residential Properties*

The notice sets out the recognized standards for ordinary standard residential properties. Where any developers build ordinary standard residential properties or commercial properties, the value of land appreciation shall be assessed individually. No retroactive adjustment will be made in respect of ordinary standard residential properties for which application for tax exemption has been filed before the notice is issued and for which LAT exemption has been granted by the tax authority on the basis of the standards of ordinary residential properties originally set down by the People’s government of the province, autonomous region or municipality directly under the central government.

(b) *Advance Collection and Settlement of LAT*

- All regions shall further improve the measures for the advance collection of LAT, and decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the level of value appreciation in the property industry and market conditions within the region and on the basis of the specific property categories, namely, ordinary standard residential properties, non-ordinary standard residential properties and commercial properties. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up.
- If any tax pre-payment is not paid within the advance collection period, overdue fines will apply as at the day following the expiration of the prescribed advance collection period.
- As to any property project that has been completed and gone through the acceptance, where the floor area of the property as transferred makes up 85% or more in the saleable floor area, the tax authority may require the relevant taxpayer to conduct the settlement of LAT on the transferred property according to the matching principles regarding the proportion between the income generated from the transfer of property and the deductible items. The specific method of settlement shall be prescribed by the local tax authority.

On December 28, 2006, the State Administration of Taxation issued the “Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises” (《關於房地產開發企業土地增值稅清算管理有關問題的通知》) which came into effect on February 1, 2007. The notice sets out further provisions concerning the settlement of LAT by property developers by clarifying issues on responsibility for the settlement of LAT, requirements, materials to be submitted, auditing and verification, recognition of revenue of indirect sale and self-use properties, deductible items and the handling of transfer after tax is imposed and settled, etc. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

Pursuant to the notice, a property developer shall settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT tax rates. The LAT shall be settled for projects approved by the competent authorities; and for projects developed in different stages, the LAT shall be settled in stages. LAT must be settled if (i) the property development project has been completed and fully sold; (ii) the property developer transfers the whole incompleting development project; or (iii) the land-use rights with respect to the project is transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if either of the following criteria is met: (a) for completed property development projects, the transferred GFA represents more than 85% of total salable GFA, or the proportion represented is less than 85%, but the remaining salable GFA has been

leased out or used by the developer; (b) the project has not been sold out for more than three years after obtaining the sale or pre-sale permit; (c) the developer applies for cancellation of the tax registration without having settled the relevant LAT; or (d) other conditions stipulated by the tax authorities.

The notice also indicates that if a property developer satisfies any of the following circumstances, the tax authorities will levy and collect LAT as per the levying rate no lower than the pre-payment rate with reference to the bearing rate of LAT of local enterprises with a similar development scale and income level: (i) failure to maintain account book as required by law or administrative regulation; (ii) destroying the account book without authorization or refusing to provide taxation information; (iii) the accounts are disorganized or illegible, or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or amount of deductible items; (iv) failure to go through LAT settlement within the prescribed period without being remedied within the period required by the relevant tax authorities; (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

To further strengthen LAT collection, in May 2009, the State Administration of Taxation released the Rules on the Administration of the Settlement of Land Appreciation Tax (《土地增值稅清算管理規程》), which became effective on June 1, 2009. The rules reiterated the circumstances under which the LAT must be settled, the criteria that are to be met for relevant tax authorities to require the settlement of LAT and the circumstances under which the tax authorities shall levy and collect LAT as prescribed by the Notice. The rules further stipulate detailed procedures for the examination and verification of settlement of LAT to be carried out by relevant tax authorities.

On May 25, 2010, the State of Administration of Taxation issued the “Notice on Strengthening of Administration work with respect to the Collection of Land Appreciation Tax” (《關於加強土地增值稅徵管工作的通知》) which specifies the advance collection rate of LAT in different regions in China. According to this circular, except for low-income housing, the advance collection rate of LAT should not be less than 2% in provinces of China’s eastern region, 1.5% in provinces of China’s central and northeastern regions, and 1% in provinces of China’s western region. The local government should apply the proper advance collection rate on the basis of the specific property category (regions should be divided in accordance with the relevant documents of the State Council).

**(d) Deed tax**

Pursuant to the “Interim Regulations of the People’s Republic of China on Deed Tax” (《中華人民共和國契稅暫行條例》) enacted by the State Council on July 7, 1997 and enforced on October 1, 1997, the transferee, whether an entity or individual, of the title to a land site or building in the PRC shall have to pay deed tax. The rate of deed tax is 3% to 5%. Provincial, regional or municipal governments directly under the central government may, within the aforesaid range, determine and report their effective tax rates to the MOF and the State Administration of Taxation for the record.

**(e) Urban land use tax**

Pursuant to the “Provisional Regulations of the People’s Republic of China Governing Land Use Tax in Cities and Towns” (《中華人民共和國城鎮土地使用稅暫行條例》) enacted by the State Council on September 27, 1988 and revised on December 31, 2006, the land use tax in respect of urban land is levied according to the area of the relevant land. The annual tax as January 1, 2007 shall be between RMB0.6 and RMB30.0 per sq.m. of urban land, calculated according to the tax rate determined by local tax authorities.

(f) *Buildings tax*

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

Pursuant to the “Tentative Provisions on the Farmland Use Tax of the People’s Republic of China” (Order of the State Council [2007] No.511)(《中華人民共和國耕地佔用稅暫行條例》)(“Provisions of Farmland Use Tax”) enacted by the State Council on December 1, 2007, and the “Detailed Rules for the Implementation of the Tentative Regulations of the People’s Republic on Farmland Use Taxes” (Order of the Ministry of Finance and the State Administration of Taxation [2008] No. 49)(《中華人民共和國耕地佔用稅暫行條例實施細則》)(“Detailed Rules of Farmland Use Taxes”) enacted by the Ministry of Finance and the State Administration of Taxation on February 26, 2008, the farmland use tax is levied according to the actual area occupied by the taxpayer. The average tax rate for farmland use taxation in the various provinces, autonomous regions, and municipalities directly under the central government, shall be determined according to the average tax rate for farmland use set out in the Detailed Rules of Farmland Use Taxes (the average tax rate is RMB 40 yuan per sq.m in Beijing, RMB 35 yuan per sq.m in Tianjin, RMB 30 yuan per sq.m in Zhejiang and Guandong, RMB 25 yuan per sq.m in Liaoning, and RMB 22.5 yuan per sq.m in Anhui) and the applicable tax rates for county-level administrative districts shall be determined according to the Provisions of Farmland Use Tax, the Detailed Rules of Farmland Use Taxes, and the rulings of the people’s governments of the various provinces, autonomous regions, and municipalities directly under the central government.

(g) *Stamp duty*

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

(h) *Municipal maintenance tax*

Under the “Interim Regulations of the People’s Republic of China on Municipal Maintenance Tax” (《中華人民共和國城市維護建設稅暫行條例》) enacted by the State Council on February 8, 1985, any taxpayer, whether an entity or individual, of product tax, value-added tax or business tax is required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town. Under the “Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises” (《關於外商投資企業和外國企業暫不徵收城市維護建設稅和教育費附加的通知》) and the “Approval on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign Invested Freightage Enterprises” (《關於外資投資貨物運輸企業徵免城市維護建設稅和教育費附加問題的批覆》) issued by State Administration of Taxation on February 25, 1994 and on September 14, 2005, respectively, whether foreign-invested enterprises are subject to municipal maintenance tax will be determined in accordance with notices issued by the State Council; and such tax is not applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

(i) *Education surcharge*

Under the “Interim Provisions on Imposition of Education Surcharge” (《徵收教育費附加的暫行規定》) enacted by the State Council on April 28, 1986 and revised on June 7, 1990 and August

20, 2005, a taxpayer, whether an entity or individual, of product tax, value-added tax or business tax is required to pay an education surcharge, unless such taxpayer is instead required to pay a rural area education surcharge as provided by the “Notice of the State Council on Raising Funds for Schools in Rural Areas” (《國務院關於籌措農村學校辦學經費的通知》). Under the “Supplementary Notice Concerning Imposition of Education Surcharge” (《國務院關於教育費附加徵收問題的補充通知》) issued by the State Council on October 12, 1994, the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises and the Approval on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign Invested Freightage Enterprises, whether foreign-invested enterprises are subject to the education surcharge will be determined in accordance with notices issued by the State Council; and such tax is not applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

## **I. Measures on adjusting the structure of housing supply and stabilizing housing price**

The General Office of the State Council enacted the “Circular on Stabilizing Housing Price” (《關於切實穩定住房價格的通知》) on March 26, 2005, requiring measures to be taken to restrain the housing price from increasing too fast and to promote the healthy development of the property market.

On May 9, 2005, the General Office of the State Council revised the Opinion of the Ministry of Construction and other Departments on Doing a Good Job of Stabilizing House Prices, the opinion provides:

### **(a) *Intensifying the planning and control and improving the supply structure of houses***

Where the housing price is growing excessively and where the supply of ordinary commodity houses in the medium or low price range, and economical houses are insufficient, construction of residential properties should mainly involve projects of ordinary commodity houses in the medium or low price range and economical houses. The construction of low-density, upmarket houses shall be strictly controlled. With respect to construction projects of medium- or low-price ordinary commodity houses, before any grant of land, the municipal planning authority shall, according to the level of control required, set out conditions for planning and design, such as the height of buildings, plot ratio and green space. The property authority shall, in collaboration with other relevant authorities, set forth such controlling requirements as sale price, type and apartment sizes. Such conditions and requirements will be set out as preconditions of land assignment to ensure an effective supply of small or medium-sized houses at moderate and low prices. The local government must intensify the supervision of planning permits for property development projects. Housing projects that have not commenced within two years must be examined again, and those that turn out to not be in compliance with the planning permits will be revoked.

### **(b) *Intensifying the control over the supply of land and rigorously enforcing the administration of land***

Where the price of land for residential use and residential properties grows too rapidly, the proportion of land for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses in the medium- or low-price range and economical house should be increased. Land supply for villa construction continues to be suspended, and land supply for high-end housing property construction is strictly restricted.

### **(c) *Adjusting the policies of business tax on residential property house transfer and strictly regulating the collection and administration of tax***

From June 1, 2005, the business tax on transfer of a residential property by an individual within two years of the purchase will be levied on the basis of the full amount of the sale proceeds.

Transfer of an ordinary residential property by an individual who sells two years or more after the purchase is exempted for business tax. For transfer of a house other than ordinary residential property by an individual two years or more after the purchase, the business tax will be levied on the basis of the balance between the proceeds from selling the property and the purchase price.

(d) *Rectifying and regulating for an orderly market*

The buyer of a pre-completion commodity property is prohibited from conducting any transfer of the pre-sale commodity property that he has bought that is still under construction. A real name system for property purchase should be applied, and an immediate archival filing network system for advance sales contracts of commodity properties should be carried out.

On May 24, 2006, the State Council forwarded the “Opinion on Adjusting the Housing Supply Structure and Stabilizing Property Prices (《關於調整住房供應結構穩定住房價格的意見》)” (the “Opinion”) of the Ministry of Construction and other relevant government authorities. The opinion provides the following:

(1) *Adjusting the Housing Supply Structure*

- Developers must focus on providing small- to medium-sized ordinary commodity properties at low- to mid-level prices to cater to the demands of local residents.
- As at June 1, 2006, newly approved and newly commenced building construction projects must have at least 70% of the total construction work area designated for small apartments with floor areas of 90 sq.m. or below (including economically affordable apartments). If municipalities directly under the central government, cities listed on state plans (計劃單列市) or provincial capital cities (省會城市) have special reasons to adjust such prescribed ratio, they must obtain special approval from the Ministry of Construction. Construction projects that have been approved but have not yet obtained a construction permit must follow the prescribed ratio.

(2) *Further adjustments by tax, loan and land policies*

- From June 1, 2006, business tax will be levied on the full amount of the sale proceeds on conveyance of residential properties within a period of five years from the date of purchase. If an individual sells his ordinary standard apartment after five or more years from the date of purchase, business tax will normally be exempted. If an individual sells his non-ordinary apartment after five or more years from the date of purchase, business tax will be levied on the balance between the selling price and the purchase price.
- Commercial banks are not allowed to advance loan facilities to property developers who do not have the required 35% minimum of the total capital for the construction projects. Commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the property developers who have a large number of idle lands and unsold commodity apartments. Banks shall not accept mortgages of commodity apartments remaining unsold for three years or more.
- At least 70% of the total land supply for residential property development must be used for developing small-to-medium-sized low-cost public housing. Based on the restrictions of residential property size ratio and residential property price, land supply will be granted by way of auction to the property developer who offers the highest bid. Land supply for villa construction will continue to be suspended, and land supply for low-density and large-area housing property construction will be restricted.



- The relevant authorities will levy a higher surcharge against those property developers who have not commenced the construction work for longer than one year from the commencement date stipulated in the construction contract and will order them to set a date for commencing the construction work and a date of completion. The relevant authorities will confiscate, without compensation, the land from those property developers who have not commenced the construction work beyond two years from the commencement date stipulated in the construction contract without proper reasons. The relevant authorities will dispose of the idle land of those property developers who have suspended construction work for one year without an approval, who have invested less than one-fourth of the total proposed investment and who have developed less than one-third of the total proposed construction area.

(3) *Reasonably Monitoring the Scope and Progress of Demolition of Urban Housing*

- The management and reasonable control of the scope and progress of the demolition of urban housing should be strengthened to halt “excessive property growth triggered by passive means” (被動性住房需求的過快增長).

(4) *Further Rectifying and Regulating the Order of the Property Market*

- In order to ensure that the prescribed ratio regarding types and sizes is followed, the relevant authorities will need to re-examine the approval of those construction projects which have been granted planning permits but have not been commenced. The relevant authorities will ensure that no planning permit (規劃許可證), construction permit (施工許可證) or permit for pre-sale of commodity properties (商品房預售許可證) are issued to those construction projects which do not satisfy the regulatory requirements, in particular, the prescribed ratio requirement. If the property developers, without an approval, alter the architectural design, the construction items, and exceed the prescribed ratio, the relevant authorities have the power to dispose of commodity properties (住房) and to confiscate the land in accordance with the law.
- The property administration authority and the administration of industry and commerce will investigate illegal dealings, such as contract fraud cases in accordance with the law. The illegal conduct of pre-completion sale of commodity apartments without satisfying all the conditions is prohibited and an administrative penalty will be imposed on offenders in accordance with the law. For property developers who deliberately manipulate the supply of commodity housing, the relevant authorities will impose substantial administrative penalties, including revoking the business licenses of serious offenders and pursuing personal liability for individuals concerned.

(5) *Gradually relieving the housing demands for low-income families*

- To expedite the establishment of low-cost public housing supply system in various cities and counties; to monitor and regulate the construction of economically affordable apartments; to aggressively develop the second-hand property market and property rental market.

(6) *Improving information disclosure system and system for collecting property statistics*

On May 30, 2006, the Ministry of Land and Resources published an urgent notice to tighten up land administration (《關於當前進一步從嚴土地管理的通知》). In this notice, the Ministry of Land and Resources stressed the local governments should strictly restrict the supply of land for low-density and large-size housing and suspend the supply of land for new villa projects.

On July 6, 2006, the Ministry of Construction promulgated a supplemental Opinion on Carrying Out the Residential Property Size Ratio in Newly-Built Residential Buildings (Jianzhufang 2006 No. 165) (《關於落實新建住房結構比例要求的若干意見》) (the “Supplemental Opinion”). The Supplemental Opinion provides the following:

- As at June 1, 2006, of the newly approved and newly commenced construction projects in different cities, including town and counties, at least 70% of the total construction area must be used for building small apartments with unit floor area of 90 sq.m. or below (including economically affordable apartments). The relevant authorities in different localities must strictly follow the prescribed ratio requirement in their respective locality.
- The relevant authorities must ensure the conditions of newly built commodity apartments including the planning and the design, and must ensure that the property size ratio is adhered to. If a property developer has not followed the ratio requirement without providing proper reasons, the town planning authorities will not issue a planning permit. If the property developer has not followed the requirements of the planning permit, the relevant authority reviewing the planning documents will not issue a certification, the construction authority will not issue a construction permit, and the property authority will not issue a permit for pre-completion sale of the commodity apartments.

In the case of construction projects that were granted approval before June 1, 2006, but that were not granted a construction work permit by that date, the relevant local governments in different localities should ascertain the details of the projects and ensure that the prescribed residential property size ratio requirement is complied with.

On September 27, 2007, the PBOC and the CBRC further tightened mortgage lending by PRC banks, by increasing the amount of down payment a property purchase must make before seeking mortgage financing. See “ — Legal supervision relating to property sector in the PRC — Property financing”.

(e) *Implementing restrictions on the payment terms for land use rights*

On September 28, 2007, the Ministry of Land and Resources issued a regulation, which reiterated that property developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use rights certificate or commence development on the land, effective November 1, 2007. In November 2009, the Ministry of Finance, the Ministry of Land and Resources, the PBOC, the PRC Ministry of Supervision and the PRC National Audit Office jointly promulgated the Notice on Further Enhancing the Revenue and Expenditure Control over Land Grant (《關於進一步加強土地出讓收支管理的通知》). The notice raises the minimum down payment for land premium to 50% and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions.

In March 2010, the Ministry of Land and Resources published the Notice on Increasing the Supply of Land for Real Estate Development and the Tightening of Regulation (《關於加強房地產供應和監管有關問題的通知》), which requires: (i) that the minimum land premium payable shall not be less than 70% of the benchmark price for land of the same grade as that of the lot to be granted; (ii) that the competitive bid bond shall not be less than 20% of the minimum land premium; and (iii) that 50% of the total land premium must be paid within one month of the signing of the contract as down payment with the remainder to be paid by the time agreed in the

contract, but in any event no later than one year after the signing of the contract. If a real estate developer fails to pay the land premium when due or is found to be leaving the land idle, hoarding or speculating on land, or to have undertaken land development beyond its capacity or failed to perform its obligations under the land use contract, the relevant municipal or county administrative authority shall prohibit it from participating in any competitive bidding for land within a certain period of time.

Pursuant to the notice on Enlarging the Floating Range of the Downward Movement of Interest Rates for Individual Mortgage Loans, the PRC government lowered the minimum interest rate for individual mortgage loans to 70% of the corresponding PBOC benchmark bank lending rates. Further, the minimum down payment ratio of residential properties was lowered to 20%. On October 22, 2008, the Ministry of Finance and the State Administration of Taxation issued the “Notice on the Adjustments to Taxation on Real Property Transactions” (《關於調整房地產交易環節稅收政策的通知》), pursuant to which, from November 1, 2008, the rate of deed tax has been reduced to 1% for a first time home buyer of an ordinary residence with a unit floor area less than 90 sq.m., individuals who are to sell or purchase residential properties are temporarily exempted from stamp duty and individuals who are to sell residential properties are temporarily exempted from land value added tax.

On December 20, 2008, the General Office of the State Council issued the “Several Opinions on Facilitating the Healthy Development of the Real Estate Market” (《關於促進房地產市場健康發展的若干意見》), which aims to, among other things, encourage the consumption of ordinary residential units and support property developers in changing market conditions. Pursuant to the opinion, in order to encourage the consumption of ordinary residential units, from January 1, 2009 to December 31, 2009, (i) business tax will be imposed on the full amount of the sale price, upon the transfer of a non-ordinary residential unit by an individual within two years from the purchase date; (ii) for the transfer of a non-ordinary residential unit which has been held by the purchaser for more than two years from the purchase date and a ordinary residential unit which has been held by the purchaser for two years or less from the purchase date, the business tax is to be levied on the difference between the sale price and the purchase price; (iii) and in the case of an ordinary residential unit, business tax is fully exempted if that transfer occurs after two years from the purchase date. Furthermore, individuals with an existing ordinary residential unit that is smaller than the average size for their locality may buy a second ordinary residential unit under favorable loan terms similar to first-time buyers. In addition, support for property developers to deal with the changing market is to be provided by increasing credit financing services to “low-to medium-level price” or “small- to medium-sized” ordinary commercial housing projects, particularly those under construction, and providing financial support and other related services to property developers with good credit standing for merger and acquisition activities.

On December 29, 2008, the Ministry of Finance and the State Administration of Taxation issued the “Notice on the Policy of Business Tax on Re-sale of Personal Residential Properties”, (《關於個人住房轉讓營業稅政策的通知》) which reiterates the measures regarding business tax set forth in the above-mentioned Several Opinions on Facilitating the Healthy Development of the Real Estate Market.

In December 2009, the State Council terminated the policy on preferential treatment relating to business taxes payable upon transfers of residential properties by property owners as previously adopted in December 2008 by the PRC government in response to the global economic slowdown, and the Ministry of Finance and the State Administration of Taxation jointly issued the “Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties” (《關於調整個人住房轉讓營業稅政策的通知》) to curtail speculations in the property market in response to the property price rises across the country. Pursuant to the notice, effective from January 1, 2010, business tax is imposed on the full amount of the sale income upon the transfer of non-ordinary residence by an individual within five years, instead of two years, from the purchase date. For the transfer of non-ordinary residence which is more than five years from

the purchase date and ordinary residence which is within five years of the purchase date, the business tax is to be levied on the difference between the sale income and the purchase prices. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date.

## **Legal supervision relating to hotel sector in the PRC**

### **A. Foreign-invested hotel project**

According to the Guidance Catalog, construction and operation of high-end hotels falls within the category of “Restricted Foreign Investment Industry”. Construction and operation of common and economic hotels other than high-end hotels fall within the category of “permitted foreign investment industry”. The Ministry of Commerce and the NDRC amended the Guidance Catalog in October 2007 which provides that, effective from December 1, 2007, the property development business falls within the category of industries in which foreign investment is permitted, except that the development of a whole land lot which shall be operated only by sino-foreign equity joint ventures or sino-foreign cooperative joint ventures, the construction and operations of high-end hotels, villas, premium office buildings and international conference centers, property transactions in the secondary market and property intermediaries fall within the category of industries in which foreign investment is subject to restrictions. A foreign-invested enterprise investing in the hotel business can set up an enterprise in the form of Sino-foreign equity joint venture, Sino-foreign cooperative joint venture or wholly foreign-owned enterprise according to the Guidance Catalog and the requirements of the relevant laws and the administrative regulations on foreign-invested enterprises. A foreign-invested enterprise in the hotel business should apply for an approval with the relevant department of commerce, and obtain an approval certification for a foreign-invested enterprise before registering with the administration of industry and commerce.

### **B. Hotel management**

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

#### **(a) *Legal supervision on security and fire control***

Pursuant to the “Measures for the Control of Security in the Hotel Industry” (《旅館業治安管理辦法》) issued by the Ministry of Public Security of the People’s Republic of China and enforced on November 10, 1987, a hotel can operate only after obtaining an approval from the local public security bureau and a business license has been granted. The hotel enterprise should make a filing with the local public security bureau and its branches in the county or city if the hotel enterprise wants to make any change including closing, transferring or merging of business, changing the place of business and name, etc. Pursuant to the “Provisions on the Administration of Fire Control Safety of State Organs, Organizations, Enterprises and Institutions” (《機關、團體、企業、事業單位消防安全管理規定》) enacted by the Ministry of Public Security on November 14, 2001 and enforced on May 1, 2002, the Fire Prevention Law of the PRC (《中華人民共和國消防法》) enacted by the Standing Committee of National People’s Congress on October 28, 2008 and the Regulations on the Supervision and Administration of Fire Prevention for Construction (《建設工程消防監督管理規定》) enacted by the Ministry of Public Security on April 30, 2009, hotels (or motels) are units which require special supervision on fire control and safety. When a hotel is under construction, renovation or re-construction, a fire control examination procedure is required, and when the construction, renovation or re-construction project is completed, a hotel can only open for business after passing a fire control inspection.

**(b) *Supervision on public health***

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

**(c) *Supervision on food hygiene***

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

**(d) *Supervision on entertainment***

According to the “Regulation on the Administration of Entertainment Venues” (《娛樂場所管理條例》) enacted by the State Council on January 29, 2006 and enforced on March 1, 2006, hotels that operate singing, dancing and game places for profits should apply to the relevant local competent departments for culture administration for entertainment commercial operation approval. The relevant local competent departments for entertainment administration shall issue a license for entertainment business operations, which verifies the number of consumers acceptable to the entertainment venue according to the prescriptions set down by the competent department governing entertainment administration under the State Council if it approves the relevant local application. According to the regulations concerning broadcast, movies and TV, hotels allowed to provide service to foreigners above two-star or the second rank of the national standards may apply to the local broadcast and television administration of the county or above for setting ground equipment receiving satellite signal to receive entertainment programs from abroad. After finishing setting ground equipment and gaining the approval from broadcast and television administration from the relevant provincial, regional and municipal government, the permit of receiving foreign television program from satellite is issued and the issuance of the permit should be filed (備案) with the state security administration.

**(e) *Supervision on disposition of sewage and pollutants***

According to Regulations of the Ministry of Construction on the “Conditions for the Fifteen Items of Administrative Licensing that are Included in the Decisions of the State Council” (《建設部關於納入國務院決定的十五項行政許可的條件的規定》) enacted by the Ministry of Construction on October 15, enforced on December 1, 2004, hotels that have been using or planning to use the city sewage system for water drainage should apply to the local city construction authority for city water-draining permit. According to the Measures for the Administration of City Water-draining Permit, issued by the Ministry of Construction on December 25, 2006 and effective on March 1, 2007, hotels that have been using the city sewage system for water drainage should apply for a city water-draining permit.

**(f) *Supervision on special equipment security***

Elevators (lifts or escalators), boilers and pressure containers and so on are special equipment. According to the “Regulations on Security Supervisal of Special Equipment” (《特種設備安全監察條例》) enacted by the State Council on March 11, 2003 and enforced on June 1, 2003, as amended on January 24, 2009, hotels should register with the special equipment security

supervision authority of municipal government or city which has set up districts, and should apply for inspection regularly with the special equipment examination institution a month before the expiration of security examination according to the requirement of regular examination by technical security standard.

**(g) *Supervision on the sale of tobacco and alcohol***

According to law and regulations in relation to the sale of tobacco, hotels that sell tobacco should apply to the tobacco monopoly administration for a Tobacco Monopoly Retail License. According to the “Measures for the Administration on Foreign Investment in Commercial Fields” (《外商投資商業領域管理辦法》) enacted by Ministry of Commerce on April 16, 2004 and enforced on June 1, 2004, a foreign-invested enterprise that operates wholesale and retail is not allowed to operate a tobacco business. According to the “Measures for the Administration of Alcohol Circulation” (《酒類流通管理辦法》) enacted by Ministry of Commerce on November 7, 2005 and enforced on January 1, 2006, an enterprise that sells alcohol should handle the archival filing and registration in the administrative department of commerce at the same level as the administrative department for industry and commerce where the registration is handled. The licensing system shall apply in those regions where the licensing administration of alcohol circulation has been carried out according to law.

**Legal supervision relating to the property management sector in the PRC**

**A. Foreign-invested real estate management enterprises**

According to the Guidance Catalog, property management falls within the category of permitted foreign-invested industries. According to the Guidance Catalog and the relevant requirements set out under the laws and the administrative regulations on foreign-invested enterprises, a foreign-invested real estate management enterprise can be set up in the form of a Sino-foreign equity joint venture, a Sino-foreign cooperative joint venture or a wholly foreign owned enterprise. Before the administration of Industry and Commerce registers, a foreign-invested enterprise as a foreign-invested real estate management enterprise, the foreign-invested real estate management enterprise should obtain an approval from the relevant department of commerce and receive a “foreign-invested enterprise approval certificate”.

**B. Qualifications of a real estate management enterprise**

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

According to the Measures for the Administration on Qualifications of Real Estate Service Enterprises, real estate service enterprise shall be classified as either class one, class two or class three. The competent construction department of the State Council is responsible for the issuance and administration of the qualification certificate for class one real estate service enterprises. The competent construction departments of the relevant provincial and regional government is responsible for issuing and administering the qualification certificate for class two real estate service enterprises, and the competent realty departments of the relevant municipal government

is responsible for issuing and administering the qualification certificate for class two and three real estate service enterprises. The competent realty departments of the People's government of the cities divided into districts shall be responsible for the issuance and administration of the qualification certificate of the class three real estate service enterprises.

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

### **C. Employment of a real estate service enterprise**

According to the Regulation on Real Estate Management, owners may engage or dismiss a property management company with the consent of more than half of the owners who, in aggregate, hold more than 50% of the total non-communal area of the building. If, before the formal employment of a property management by the owners or the general meeting, the construction unit is to employ a real estate management enterprise, it shall enter into a preparation stage property services contract in writing with the real estate management enterprise.

## **LEGAL SUPERVISION RELATING TO CONSTRUCTION SECTOR IN THE PRC**

### **A. Foreign-invested construction enterprise**

According to the Guidance Catalog, construction business falls within the category of permitted foreign investment industries. According to the "Regulations on the Administration of Foreign-invested Construction Enterprise" (《外商投資建築業企業管理辦法》) jointly enacted by the Ministry of Construction and the Ministry of Foreign Economic Cooperation (now changed to the MOFCOM) on September 27, 2002 and enforced on December 1, 2002, a foreign investor that establishes foreign-invested construction enterprises in China that carry on construction operations will have to (a) obtain the approval certification of foreign-invested enterprise; (b) register with the SAIC or local administration of industry and commerce; and (c) obtain a qualification certificate of construction enterprise from construction administration authorities.

### **B. Qualification of a construction enterprise**

According to Construction Law of the People's Republic of China and the "Provisions on the Administration of Qualifications of Enterprises in Construction Industry" (《建築業企業資質管理規定》) enacted by the Ministry of Construction on June 6, 2007 and enforced on September 1, 2007, the enterprises in the construction industry shall be classified into different qualification classes pursuant to, amongst other things, the amount of its registered capital, net asset value, professional personnel, technical equipment and performance records of completed construction works. A construction enterprise can engage in construction activities within its approved scope after obtaining the construction qualification certificate.

According to the above-mentioned Provisions on the Administration of Qualifications of Enterprises in Construction Industry, the qualifications will be divided into three categories, namely that for undertaking the whole of a construction project, that for undertaking a specialized contract and that for undertaking a labor service by subcontract. The categories of qualifications for undertaking the whole of a construction project, undertaking a specialized contract and undertaking a labor service by subcontract are divided into several qualification types according to the nature of the project and technical features. Each qualification type is further divided into several classes according to the prescribed conditions.

The department in charge of construction under the State Council is responsible for the approval of: (i) the qualification of special class or first class enterprises for undertaking the whole of a construction project; (ii) the qualification of second and third class enterprises for undertaking the whole of a construction project, which are directly supervised by State-owned Assets Supervision Administration Commission of the State Council or enterprises which are directly owned by the enterprises aforesaid; (iii) the qualification of first class enterprises for undertaking specialized contracts, which are engaged in water conservancy, transportation, and the information industry; (iv) the qualification of first or second class enterprises for undertaking specialized contracts, which are engaged in operation of railroads and civil aviation; and (v) the qualification of enterprises for undertaking specialized contracts, which are engaged in road transportation and urban railroad transportation. Other kinds of qualification should be approved by the department in charge of construction under the authority of the province, autonomous region or municipality directly under the central government, and the city which has set up districts in accordance with the Provision.

The term of validity of certificate for the qualification of enterprise in construction industry is five years.

### **C. Business scope of qualifications for a wholly foreign owned construction enterprise**

According to the Regulations on the Administration of Foreign-invested Construction Enterprise, a wholly foreign owned construction enterprise is allowed to contract, within its scope of qualifications, the following projects: (a) a project that is to be constructed totally with the investment of a foreign country or the donation of a foreign country or the investment and donation of a foreign country; (b) a project funded by an international financial institution or granted through international bidding according to the terms of a loan; (c) a joint construction project of which foreign investment holds 50% or more, and a Sino-foreign joint construction enterprise in which foreign investment holds less than 50% but which cannot be independently implemented by any Chinese construction enterprise due to technical difficulties and has been approved by the administrative department of construction of the relevant provincial, regional or municipal government; and (d) a construction project using Chinese investment but that cannot be independently implemented by any Chinese construction enterprise due to technical difficulties and for which the administrative department of construction of the relevant provincial, regional or municipal government has approved being jointly contracted by Chinese and foreign construction enterprises.

## **REGULATION ON FOREIGN EXCHANGE REGISTRATION OF OFFSHORE INVESTMENT BY PRC RESIDENTS**

Pursuant to the “SAFE’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles” (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), issued on May 2007, or Circular No. 75 and its implementation rules, issued on October 21, 2005 (“Circular No. 106”), (a) a PRC resident, including a PRC resident natural person or a PRC company, shall register with the local branch of the SAFE before it establishes or controls an overseas special purpose vehicle, or SPV, for the purpose of overseas equity financing with domestic enterprises assets or equity held by it (including convertible debt financing); (b) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into a SPV, or engages in overseas financing after contributing assets or equity interests into a SPV, such PRC resident shall register his or her interest in the SPV and the change thereof with the local branch of the SAFE; and (c) when the SPV undergoes a material event which is not related to “round-trip” investment (且不涉及返程投資的) outside the PRC, such as change in share capital or merger and acquisition, the PRC resident shall, within 30 days of the occurrence of such event, register such change with the local branch of the SAFE. Under Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on the PRC subsidiary’s foreign exchange activities and its ability to distribute dividends to the SPV.



As a result, under Circular No. 75, if the PRC resident or the SPV described above engages in an overseas offering or otherwise undergoes a material event outside the PRC, such PRC resident and SPV are required to register such change with the local branch of the SAFE within 30 days from the occurrence of such offering or event.

## MANAGEMENT

### DIRECTORS

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

| Name                 | Age | Position                                       |
|----------------------|-----|--|
| LI Ming .....        | 46  | Executive Director and Chief Executive Officer |
| LIU Hui .....        | 40  | Non-executive Director                         |
| LIANG Yanfeng .....  | 45  | Non-executive Director                         |
| WANG Xiaodong .....  | 51  | Non-executive Director                         |
| WANG Xiaoguang ..... | 47  | Executive Director                             |
| CHEN Runfu .....     | 45  | Executive Director                             |
| TSANG Hing Lun ..... | 61  | Independent Non-executive Director             |
| GU Yunchang .....    | 66  | Independent Non-executive Director             |
| HAN Xiaojing .....   | 55  | Independent Non-executive Director             |
| ZHAO Kang .....      | 61  | Independent Non-executive Director             |

#### Executive Director and Chief Executive Officer

**Mr. LI Ming** (李明), aged 46, joined us as General Manager in July 1997 and became Chief Executive Officer in August 2006, and is Chairman of the Investment Committee. With extensive experience in corporate governance, property development and property investment, Mr. Li is primarily responsible for our Company's overall management and strategic planning. Before joining us, Mr. Li held a senior management position in the China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries (the "COSCO Group"). Mr. Li obtained a Bachelor's degree in Motor Vehicle Transportation from the Jilin Industrial University in July 1985 and an Executive Master of Business Administration degree from the China Europe International Business School in May 1998. He is a senior engineer. Mr. Li is currently a member of the Committee of the People's Policy-related Consultation Conference of the Beijing Municipality; a member of the People's Congress of the Chaoyang District, a consultant for property market measures and policies in the Ministry of Housing and Urban-Rural Development; and Deputy Chairman of the China Real Estate Association. Mr. Li has won various nationwide awards and was conferred such titles as "Influential Person of the Chinese Real Estate Industry", "Leading Person of Brand Name Real Estate Developers in China", "Ten Outstanding Persons in the Beijing Real Estate Industry", "Ten Entrepreneurs of the Chinese Commercial Real Estate Industry" and "Ten Leaders in the Real Estate Industry Changing Cities and Influencing China".

#### Non-executive Directors

**Ms. LIU Hui** (劉暉), aged 40, joined us in March 2010. Ms. Liu has 18 years of experience in banking and investment management. She held various positions, including General Manager, Deputy General Manager and Assistant to the General Manager of China Life Insurance Asset Management Company Limited, and has served as a division head of the headquarters of China Construction Bank. She was appointed as General Manager of the Investment Management Department of China Life Insurance Company Limited in February 2009. Ms. Liu graduated from the Renmin University of China with a Bachelor's degree in Economics in July 1992, and received a Master of Business Administration degree from the Tsinghua University in June 2000. She is a senior economist. Ms. Liu has been appointed by China Life Insurance Company Limited.

**Mr. LIANG Yanfeng (梁岩峰)**, aged 45, joined us in January 2002. Mr. Liang is also the Executive Director of COSCO International Holdings Limited, and a non-executive director and non-executive vice chairman of Soundwill Holdings Limited, both listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Mr. Liang graduated from the Tsinghua University and was granted a Master’s degree in Law from the Department of Social Science and an Executive Master of Business Administration degree in 1991 and 2005, respectively. He is a senior economist. Mr. Liang was appointed by the COSCO Group.

**Mr. WANG Xiaodong (王曉東)**, aged 51, joined us in March 2010. Mr. Wang has been an executive director of COSCO International Holdings Limited (the “COSCO International”, together with its subsidiaries referred to as the “COSCO International Group”) since January 2006 and he has been Managing Director of COSCO International since December 2009. Mr. Wang has a Bachelor’s degree in Marine Mechanical Management from the Dalian Marine University, and a Master of Business Administration degree from the China Europe International Business School. He is a senior engineer. Mr. Wang was appointed by the COSCO Group.

### **Executive Directors**

**Mr. WANG Xiaoguang (王曉光)**, aged 47, Executive Vice President, joined us in December 2008. With his extensive experience in real estate development and investment, Mr. Wang assists in the Company’s overall management and is in charge of development work in new regions. Mr. Wang received a Bachelor’s degree in Machinery from the Jilin University in July 1986 and an Executive Master of Business Administration degree from the Dongbei University of Finance and Economics in June 2005. Mr. Wang is currently a member of the Internal and Judicial Affairs Committee of the People’s Congress of Dalian Municipality, Vice-Chairman of the Dalian General Chamber of Commerce, and Vice-Chairman of the Liaoning Province Real Estate Development Association. Mr. Wang has been awarded various nationwide awards, such as Top Ten EMBA in China and CIHAF Top Ten New Faces in Chinese Real Estate Industry.

**Mr. CHEN Runfu (陳潤福)**, aged 45, Vice President and a member of the Investment Committee, joined us in 1995. Equipped with extensive experience in property development and investment, Mr. Chen is involved with the Company’s overall management and responsible for the Company’s business operations in the Tianjin region. Mr. Chen obtained a Bachelor’s degree in Harbour and Channel Engineering from the Dalian Institute of Technology (now the Dalian University of Technology) in July 1986 and an Executive Master of Business Administration degree from the China Europe International Business School in September 2005.

### **Independent Non-executive Directors**

**Mr. TSANG Hing Lun (曾慶麟)**, aged 61, Chairman of the Audit Committee and a member of the Investment Committee, joined us in June 2007. Mr. Tsang is a fellow member of the Hong Kong Institute of Directors, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Tsang graduated from the Chinese University of Hong Kong with a Bachelor’s degree in Business Administration (Hons) in 1973. Mr. Tsang has served in a senior management capacity in several publicly listed companies operating in Hong Kong and Singapore. Having joined the Hang Seng Bank in 1973, he served for 17 years and was Assistant General Manager of the bank’s Planning and Development Division. He joined the UOB Group in Singapore in 1990 as its Head of International Branches Division and its first Vice President. Mr. Tsang became an executive director of the China Champ Group in 1994 and was an alternate chief executive and Deputy General Manager of the China Construction Bank, Hong Kong Branch, from 1995 to 1998. Mr. Tsang currently acts as an independent non-executive director of Sinotrans Shipping Limited, Beijing Media Corporation Limited, and First China Financial Network Holdings Limited, companies listed on the Stock Exchange.

**Mr. GU Yunchang** (顧雲昌), aged 66, a member of the Audit Committee, the Remuneration and Nomination Committee, and the Investment Committee, joined us in June 2007. He joined the Ministry of Construction in 1979 and has over 29 years' experience in market theory and policy research, including research and analysis of the PRC property market. In 1983, he was appointed as Secretary-General of the China Residential Property Issues Research Institute and held this position for 10 years. Between 1986 and 1998, Mr. Gu participated in the research and formulation of the national housing policy reform and, in 1998, served as one of the main draftsmen for the national housing reform program in the PRC. He has participated in state level research projects such as "2000 China" and "National Xiaokang Residential Property Technological Industry Project". He has been awarded the First Class National Science Technology Advance Award in China twice. Mr. Gu was served as Vice President and Secretary-General of the China Real Estate Association from August 1998 to March 2006. He is also the main organizer and writer of the China Real Estate Market Report, an annual analysis report issued by the China Real Estate Association. Mr. Gu currently serves as an independent non-executive director of Shimao Property Holdings Limited, a company listed on the Stock Exchange, and independent director of E-House (China) Holdings Limited, a company listed on the New York Stock Exchange in the USA.

**Mr. HAN Xiaojing** (韓小京), aged 55, is Chairman of the Remuneration and Nomination Committee and a member of the Audit Committee and the Investment Committee, joined us in June 2007. Mr. Han is the founding partner of the Commerce & Finance Law Offices. He has over 23 years' experience in corporate and securities law in China, especially in the restructuring of large-scale state-owned enterprises and private companies and the offshore listing of Chinese companies. Mr. Han obtained a Master's degree in Law from the China University of Political Science and Law. He is currently an independent director of Shenzhen Overseas Chinese Town Holding Company, a company listed on the Shenzhen Stock Exchange in the PRC, and a supervisor of Beijing Capital International Airport Company Limited, a company listed on the Stock Exchange.

**Mr. ZHAO Kang** (趙康), aged 61, a member of the Remuneration and Nomination Committee and the Investment Committee, joined us in June 2007. Mr. Zhao was an independent director of Beijing Capital Co. Ltd., a company listed on the Shanghai Stock Exchange in the PRC. After graduating from the Department of Construction at the Tsinghua University in December 1975, he became a deputy chief of the planning division of Beijing Huairou District Construction Bureau in January 1976, and joined the Beijing Municipal Construction Committee in May 1978. In May 1983, Mr. Zhao joined the Beijing First and Second Urban Development Corporation as Deputy General Manager and, in 1987, became Assistant to the General Manager and Deputy General Manager of Beijing Urban Development Group Company (北京城市發展總公司). He became General Manager and Chairman of Beijing Urban Development (Group) Co., Ltd. in April 1994. Mr. Zhao was Chairman of Beijing National Olympics Investment Company Limited (北京國奧投資有限公司) in 2005, in charge of the development of the Beijing Olympics Village and the National Gymnasium in Beijing. He is currently a member of the Committee of the People's Policy-related Consultation Conference of the Beijing Municipality, and has been Honorary Chairman of Beijing Capital Development Holding (Group) Co., Ltd. since November 2005.

## **SENIOR MANAGEMENT**

**Mr. XU Li** (徐立), aged 48, Vice President, joined us in October 1997. He has considerable experience in property development and investment and is involved with the Company's overall management and responsible for the Company's business operations in the Beijing region. Mr. Xu obtained a Diploma in Industrial and Residential Construction from the Liaoning Radio and Television University in December 1992.

**Ms. ZHOU Tong (周彤)**, aged 47, Vice President, joined us in August 2003. She has significant experience in property design, development and investment. Ms. Zhou is involved with the Company's overall management and responsible for the management of our branding, properties and customer relations. Ms. Zhou obtained a Bachelor's degree in Architecture from the Tongji University in July 1986 and an Executive Master of Business Administration degree from the China Europe International Business School in September 2009.

**Mr. ZHU Yunchun (朱雲春)**, aged 53, Vice President, joined us in May 2002. He is involved with the Company's overall management and assists in the management of the business operations in the Tianjin region. Mr. Zhu obtained a Diploma in Political Work on Board and a Master's degree in Transportation Planning and Management from the Dalian Maritime University in July 1986 and March 2002, respectively.

**Mr. LI Jianbo (李建波)**, aged 48, Vice President, joined us in September 2009. He possesses many years of experience in human resources management in multi-national companies. He is involved with the Company's overall management and responsible for the management of human resources, strategic planning and IT infrastructure. Mr. Li obtained a Bachelor's degree in Computer Engineering from the Tsinghua University in July 1985 and a Master of Business Administration degree from the State University of New Jersey in August 2000.

**Mr. SUM Pui Ying, Adrian (沈培英)**, aged 48, Chief Financial Officer and Company Secretary, joined us in May 2007. Mr. Sum is a fellow member of the Hong Kong Institute of CPA and a member of the Institute of Chartered Accountants in England & Wales. He has many years of experience in companies listed on the Stock Exchange. Mr. Sum is involved with the Company's overall management and is responsible for our overall financial management, company secretarial and compliance issues, corporate finance and investor relations. Mr. Sum obtained a Professional Diploma in Accounting from the Hong Kong Polytechnic University in 1988, Master of Business Administration degree from the University of Wales in 1991 and a Diploma in Legal Studies from the University of Hong Kong in 1996.

**Mr. CHEN Zuyuan (譚祖元)**, aged 48, Vice President, joined us in February 2003. Mr. Chen has extensive experience in property development and planning and design. He is involved in the Company's overall management and responsible for our product research, planning and design, and construction management. Mr. Chen obtained a Bachelor's degree in Industrial and Civil Construction from the Hunan University in July 1983 and an Executive MBA from the China Europe International Business School in September 2006.

## **BOARD COMMITTEES**

### **Audit committee**

We established an audit committee on September 3, 2007. The audit committee consists of three members, being Messrs. Tsang Hing Lun, Han Xiaojing and Gu Yunchang, all of whom are our independent non-executive Directors. The chairman of the audit committee is Mr. Tsang Hing Lun.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of our Company, nominate and monitor external auditors and provide advice and comments to our Directors.

### **Remuneration and nomination committee**

We established a remuneration and nomination committee on September 3, 2007. The remuneration and nomination committee consists of three members, comprising Messrs. Han Xiaojing, Gu Yunchang and Zhao Kang. The chairman of the remuneration and nomination committee is Mr. Han Xiaojing. The primary functions of the remuneration and nomination committee are to evaluate the performance

and make recommendations on the remuneration packages of our Directors and senior management, to evaluate and make recommendations on our retirement scheme and our performance assessment system and bonus and commission policies, and to make recommendations to the Board regarding candidates to fill vacancies on the Board.

### **Investment committee**

We established an investment committee on September 3, 2007. The investment committee consists of six members, being Messrs. Li Ming, Chen Runfu, Tsang Hing Lun, Gu Yunchang, Han Xiaojing and Zhao Kang, as at April 30, 2010, all of whom are neither appointed by COSCO nor by China Life. The chairman of the investment committee is Mr. Li Ming. The primary functions of the investment committee are to consider all matters relating to new property development and investment projects.

### **RETIREMENT SCHEMES**

Our employees in the PRC participate in a State-managed retirement pension scheme operated by the relevant local municipal government. The local government is responsible for the planning, management and supervision of the scheme, including collecting and investing the contributions, and paying out the pensions to the retired employees. Our only obligation in respect of the retirement pension scheme is to contribute to the scheme at a certain rate of overall payroll expenses. Such rate is prescribed by the government of each of the provinces, autonomous regions or municipalities directly under the central government and may vary in different cities. For instance, the prescribed rate in Beijing is 20% as compared with 19% in Dalian.

### **COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

The aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including our contribution to the pension scheme on behalf of our Executive Directors and senior management) or any bonuses we paid to our executive directors, for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 were approximately RMB48 million, RMB39 million, RMB56 million and RMB6.5 million, respectively.

We have not paid any fees, salaries, housing allowances, other allowances, benefits in kind (including any contribution to any pension scheme on behalf of our Non-executive Directors) or any other bonuses for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010.

During the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, no remuneration was paid by us to, or receivable by, our Directors or senior management as an inducement to join or upon joining us. No compensation was paid by us to or receivable by our Directors, past Directors or senior management for each of the last three years for the loss of any office in connection with the management of the affairs of our member. None of our Directors waived any emoluments for each of the last three years.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, by us to the Directors and the senior management.

## Interests of Directors and chief executives in shares and underlying shares and debentures

As at December 31, 2009, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) were as follows:

| Name                                    | Nature of interest             | Number of ordinary shares held (long position) | Share options                 | Total       | Percentage in the Company’s issued share capital |
|---|--------------------------------|--|-------------------------------|-------------|--|
| Mr. LI Ming                             | Founder of discretionary trust | 125,878,375<br><i>note (1)</i>                 | 11,560,000<br><i>note (2)</i> | 137,438,375 | 2.438%   |
| Mr. LIANG Yanfeng                       |                                |  | 3,360,000<br><i>note (2)</i>  | 3,360,000   | 0.060%   |
| Mr. CHEN Runfu                          |                                |  | 4,420,000<br><i>note (2)</i>  | 4,420,000   | 0.078%   |
| Mr. YIN Yingneng Richard <sup>(3)</sup> | Beneficial owner               | 12,728,371                                     | 400,000<br><i>note (2)</i>    | 13,128,371  | 0.233%   |
| Mr. TSANG Hing Lun                      | Beneficial owner               | 40,000   | 400,000<br><i>note (2)</i>    | 440,000     | 0.008%   |
| Mr. GU Yunchang                         |                                |  | 500,000<br><i>note (2)</i>    | 500,000     | 0.009%   |
| Mr. HAN Xiaojing                        |                                |  | 500,000<br><i>note (2)</i>    | 500,000     | 0.009%   |
| Mr. ZHAO Kang                           |                                |  | 500,000<br><i>note (2)</i>    | 500,000     | 0.009%   |

Notes:

(1) The 125,878,375 shares are held by a discretionary trust of which Mr. LI Ming is founder.

(2) The share options were granted pursuant to our share option scheme.

(3) Mr. Yin Yingneng Richard resigned on March 23, 2010 and is no longer a Director or officer.

Save as disclosed above, none of the Directors nor the chief executives of the Company or their associates had any interest or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

## RELATED PARTY TRANSACTIONS

The following is a summary of significant related party balances and transactions entered into in the ordinary course of business between our members and its related parties during the years ended December 31, 2008 and 2009. For a description of significant related party balances and transactions as at and during the year ended December 31, 2007, see note 43 of the Company's consolidated financial statements for the year ended December 31, 2007, which are incorporated by reference in this Offering Circular.

### (a) Sales of properties and services

|   | <b>Year ended December 31,</b> |               |
|---|--------------------------------|---------------|
|   | <b>2009</b>                    | <b>2008</b>   |
|   | <i>RMB in thousands</i>        |               |
|   | <i>(audited)</i>               |               |
| Provision of properties:  |                                |               |
| — A jointly controlled entity of China Ocean Shipping (Group) Company Limited (“COSCO Group”) | <u>109,683</u>                 | <u>—</u>      |
|   | 109,683                        | —             |
| Provision of services:  |                                |               |
| — COSCO Group   | 11,104                         | 8,687         |
| — A jointly controlled entity   | 7,230                          | 26,550        |
| — A jointly controlled entity of COSCO Group  | <u>1,052</u>                   | <u>—</u>      |
|   | 19,386                         | 35,237        |
|   | <u>129,069</u>                 | <u>35,237</u> |

### (b) Key management compensation

|   | <b>Year ended December 31,</b> |               |
|---|--------------------------------|---------------|
|   | <b>2009</b>                    | <b>2008</b>   |
|   | <i>RMB in thousands</i>        |               |
|   | <i>(audited)</i>               |               |
| Salaries and other short-term employee benefits | 32,969                         | 16,425        |
| Post-employment benefits                        | 3,035                          | 2,176         |
| Other long-term welfare                         | 2,408                          | 2,210         |
| Share-based payments                            | <u>17,403</u>                  | <u>18,390</u> |
|   | 55,815                         | 39,201        |
|   | <u>55,815</u>                  | <u>39,201</u> |



(c) Year-end balances arising from sales of properties and services

|  | As at December 31,      |              |
|--|-------------------------|--------------|
|  | 2009                    | 2008         |
|  | <i>RMB in thousands</i> |              |
|  | <i>(audited)</i>        |              |
| Receivables from related parties:            |                         |              |
| — COSCO Group                                | —                       | 9,332        |
| — A jointly controlled entity                | 324                     | —            |
| — A jointly controlled entity of COSCO Group | <u>10,968</u>           | <u>—</u>     |
|  | <u>11,292</u>           | <u>9,332</u> |

(d) Interest income

|                               | Year ended December 31, |               |
|-------------------------------|-------------------------|---------------|
|                               | 2009                    | 2008          |
|                               | <i>RMB in thousands</i> |               |
|                               | <i>(audited)</i>        |               |
| Interest received:            |                         |               |
| — A jointly controlled entity | 15,973                  | 25,065        |
| — An associate                | <u>17,042</u>           | <u>15,141</u> |
|                               | <u>33,015</u>           | <u>40,206</u> |

(e) Loans to related parties

|                                | Year ended December 31, |                 |
|--------------------------------|-------------------------|-----------------|
|                                | 2009                    | 2008            |
|                                | <i>RMB in thousands</i> |                 |
|                                | <i>(audited)</i>        |                 |
| A jointly controlled entity:   |                         |                 |
| At January 1                   | 267,190                 | 545,400         |
| Loans advanced during the year | 745,170                 | 1,111,290       |
| Loans advanced as investment   | 532,000                 | —               |
| Loans repayments received      | (1,012,360)             | (1,389,500)     |
| Interest charged               | 15,973                  | 25,065          |
| Interest received              | <u>(15,973)</u>         | <u>(25,065)</u> |
| At December 31                 | <u>532,000</u>          | <u>267,190</u>  |
| An associate:                  |                         |                 |
| At January 1                   | 268,478                 | 5,000           |
| Loans advanced during the year | 886,274                 | 268,478         |
| Loans repayments received      | (846,982)               | (5,000)         |
| Interest charged               | 17,042                  | 15,141          |
| Interest received              | <u>(17,042)</u>         | <u>(15,141)</u> |
| At December 31                 | <u>307,770</u>          | <u>268,478</u>  |

## PRINCIPAL SHAREHOLDERS

The register of substantial shareholders required to be kept by the Company under section 336 of Part XV of the SFO shows that as at June 30, 2010, the Company had been notified of the following substantial shareholders' interests and short positions in the shares of the Company, being interests of 5% or more, in addition to those disclosed above in respect of the Directors and chief executive of the Company.

| Name of shareholders                                      | Capacity                              | Long/short<br>position | Number of<br>ordinary shares<br>held | Percentage in<br>the Company's<br>issued share<br>capital |
|---|---------------------------------------|------------------------|--------------------------------------|---|
| China Life Insurance<br>(Group) Company<br>(Note i)       | Interest of controlled<br>corporation | Long                   | 1,357,186,120                        | 24.07%  |
| China Life Insurance<br>Company Limited<br>(Note i)       | Beneficial owner                      | Long                   | 1,357,186,120                        | 24.07%  |
| COSCO (Note ii)   | Interest of controlled<br>corporation | Long                   | 949,937,399                          | 16.85%  |
| COSCO (Hong Kong)<br>Group Limited (Note<br>ii)           | Interest of controlled<br>corporation | Long                   | 949,937,399                          | 16.85%  |
| True Smart International<br>Limited (Note ii)             | Interest of controlled<br>corporation | Long                   | 949,937,399                          | 16.85%  |
| COSCO International<br>Holdings Limited<br>(Note ii)      | Interest of controlled<br>corporation | Long                   | 949,937,399                          | 16.85%  |
| COSCO (B.V.I.)<br>Holdings Limited<br>(Note ii)           | Interest of controlled<br>corporation | Long                   | 949,937,399                          | 16.85%  |
| COSCO International<br>Land (B.V.I.) Limited<br>(Note ii) | Interest of controlled<br>corporation | Long                   | 949,937,399                          | 16.85%  |
| COSCO International<br>Land Limited (Note ii)             | Interest of controlled<br>corporation | Long                   | 949,937,399                          | 16.85%  |
| Sunny Wealth<br>Investments Limited<br>(Note ii)          | Beneficial owner                      | Long                   | 949,937,399                          | 16.85%  |
| UBS AG  | Beneficial owner                      | Long                   | 286,735,122<br>(Note iii)            | 5.09%   |
|   |                                       | Short                  | 49,911,200<br>(Note iv)              | 0.89%   |

*Notes:*

- (i) The 1,357,186,120 shares were registered in the name of, and beneficially owned by, China Life Insurance Company Limited. China Life Insurance (Group) Company was interested in 68.37% of China Life Insurance Company Limited.

- (ii) The 949,937,399 shares were beneficially owned by Sunny Wealth Investments Limited, which was wholly owned by COSCO International Land Limited. COSCO International Land Limited was wholly-owned by COSCO International Land (B.V.I.) Limited, which in turn was wholly-owned by COSCO (B.V.I.) Holdings Limited. COSCO (B.V.I.) Holdings Limited was wholly-owned by COSCO International Holdings Limited. True Smart International Limited was interested in 59.87% of COSCO International Holdings Limited. True Smart International Limited was wholly-owned by COSCO (Hong Kong) Group Limited, which in turn was wholly owned by COSCO.
- (iii) UBS AG held a long position in 286,735,122 shares of the Company comprising:
  - (a) 161,518,122 shares held by UBS AG;
  - (b) 914,000 shares on which UBS AG has a security interest; and
  - (c) The 6,933,000 shares, 16,081,500 shares, 4,718,500 shares, 4,854,500 shares, 34,352,500 shares, 13,283,500 shares, 1,870,000 shares, 40,763,500 shares and 1,446,000 shares were owned by UBS Fund Management (Switzerland) AG, UBS Global Asset Management (Americas) Inc., UBS Global Asset Management (Hong Kong) Ltd, UBS Global Asset Management (Japan) Ltd, UBS Global Asset Management (Singapore) Ltd, UBS Global Management (UK) Limited, UBS Global Asset Management (Canada) Co., UBS Securities LLC and UBS Global Asset Management Trust Co. Ltd, respectively, which were wholly-owned by UBS AG.
- (iv) The 9,147,700 shares were beneficially owned by UBS AG and the 40,763,500 shares were owned by UBS Securities LLC, which was wholly-owned by UBS AG.

Save as disclosed above, as at June 30, 2010, no person or corporation had any interest in the share capital of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest in 5% or more of, or any short position in, the issued share capital of the Company.