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**POWERLONG**

**宝龙**

**POWERLONG REAL ESTATE HOLDINGS LIMITED**

**寶龍地產控股有限公司**

(於開曼群島註冊成立的有限公司)

(股份代號：1238)

### 海外監管公佈

本海外監管公佈乃根據香港聯合交易所有限公司(「聯交所」)證券上市規則(「上市規則」)第13.10B條而發表。

茲提述本公司於2015年11月19日及2015年11月20日就發行票據而發表的兩份公佈。除另有界定外，本公佈所用的全部詞彙與2015年11月20日發表的上述公佈所界定者具有相同涵義。

董事會欣然宣佈，購買協議項下的所有先決條件已獲達成，並已於2015年11月26日完成發行票據。

請參閱隨附有關票據的發售備忘錄(「發售備忘錄」)，發售備忘錄將於2015年11月27日同步在新交所網站刊登。

在聯交所網站登載發售備忘錄僅為促進向香港投資者平等發佈信息以及遵守上市規則第13.10B條，概無任何其他目的。發售備忘錄並不構成向任何司法權區的公眾人士要約出售任何證券的招股章程、通知、通函、冊子、公佈或文件，亦非邀請或招攬公眾人士作出收購、認購或購買任何證券的要約，且並非刻意邀請或招攬公眾人士作出收購、認購或購買任何證券的要約。發售備忘錄不得視為勸誘認購或購買本公司任何證券，亦不擬作出有關勸誘。不應根據發售備忘錄所載資料作出任何投資決定。

承董事會命  
寶龍地產控股有限公司  
主席  
許健康

香港，2015年11月27日

於本公佈日期，執行董事為許健康先生、許華芳先生、肖清平先生、施思妮女士及張洪峰先生；非執行董事為許華芬女士；及獨立非執行董事為魏偉峰博士、梅建平博士及丁祖昱博士。

US\$200,000,000



**POWERLONG**  
**宝龙**

**Powerlong Real Estate Holdings Limited**

(incorporated with limited liability under the laws of the Cayman Islands)

**7.625% SENIOR NOTES DUE 2018**

**Issue Price: 99.017%**

**plus, in each case, accrued interest, if any, from the issue date.**

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The 7.625% Senior Notes due 2018 (the “Notes”) will bear interest from November 26, 2015 at 7.625% per annum payable semi-annually in arrears on May 26 and November 26 of each year, beginning May 26, 2016. The Notes will mature on November 26, 2018. The Notes are senior obligations of Powerlong Real Estate Holdings Limited (the “Company”), guaranteed (the “Subsidiary Guarantees”) by its existing subsidiaries (the “Subsidiary Guarantors”) other than (i) those organized under the laws of the PRC, (ii) certain other subsidiaries that are guaranteeing the Notes on a limited recourse basis (the “JV Subsidiary Guarantors”) and (iii) certain other subsidiaries specified in the “Description of the Notes”.

At any time, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company at a redemption price of 107.625% of the principal amount of the applicable Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In addition, we may redeem the Notes, in whole but not in part, at any time at a redemption price equal to 100% of the principal amount of the applicable Notes plus a premium as set forth in this offering circular. Upon the occurrence of a Change of Control Triggering Event (as defined in the “Description of the Notes”), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

The Notes will (1) rank at least *pari passu* in right of payment against the Company with respect to the 2018 Notes, the 2016 Notes, the 2017 Notes and all unsecured, unsubordinated indebtedness of the Company (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); (2) rank senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes; (3) be effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and (4) be effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined in the “Description of the Notes”). However, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees and the pledge of any collateral. See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.”

For a more detailed description of the Notes, see “Description of the Notes” beginning on page 180.

**Investing in the Notes involves significant risks. See “Risk Factors” beginning on page 14.**

Approval in-principle has been received for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The listing and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors or the Notes. The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 of principal amount and integral multiples of US\$1,000 in excess thereof.

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

The Notes have been rated B- by Standard and Poor’s Ratings Services (“S&P”) and B3 by Moody’s Investors Service, Inc. (“Moody’s”). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

It is expected that the delivery of the Notes will be made on or about, November 26, 2015 through the book-entry facilities of Euroclear Bank S.A./N.A. (“Euroclear”) and Clearstream Banking, société anonyme, Luxembourg (“Clearstream”). See “Plan of Distribution.”

***Joint Lead Managers and Joint Bookrunners***

**Guotai Junan International BofA Merrill Lynch Credit Suisse**

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The date of this offering circular is November 19, 2015

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

**IN CONNECTION WITH THIS OFFERING, GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED, MERRILL LYNCH INTERNATIONAL AND CREDIT SUISSE SECURITIES (EUROPE) LIMITED, AS STABILIZING MANAGERS ON BEHALF OF THE INITIAL PURCHASERS, OR ANY PERSON ACTING FOR THEM, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE INITIAL PURCHASERS AND NOT FOR OR ON BEHALF OF THE ISSUER.**

You should rely only on the information contained in this offering circular. We have not authorized anyone to provide you with information that is different from that contained in this offering circular. We are offering to sell, and seeking offers to buy, the Notes only in jurisdictions where offers and sales are permitted. The information contained in this offering circular is accurate only as of the date of this offering circular, regardless of the time of delivery of this offering circular or any sale of the Notes. Our business, financial condition, results of operations and prospects may have changed since that date.

This offering circular is highly confidential. This offering circular is personal to the offeree to whom it has been delivered and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Notes. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering circular before making a decision whether to purchase the Notes. You must not use this offering circular for any other purpose, or disclose any information in this offering circular to any other person.

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

No representation or warranty, express or implied, is made by the Initial Purchasers or any of their affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering circular is, or shall be relied upon as, a promise or representation, whether as to the past or the future. None of the Initial Purchasers has independently verified any of the information contained in this offering circular and can give no assurance that this information is accurate, truthful or complete. To the fullest extent permitted by law, none of the Initial Purchasers accepts any responsibility for the contents of this offering circular or for any other statement in connection with the issue and offering of the Notes made or purported to be made by the Initial Purchasers or on their behalf. The Initial Purchasers accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this offering circular or any such statement. None of the Initial Purchasers or any of their respective affiliates undertakes to review the financial condition or affairs of the Company, the Subsidiary Guarantors or the JV Subsidiary Guarantors during the life of the arrangements contemplated by this offering circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Initial Purchasers or their respective affiliates.

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

We are not, and the Initial Purchasers are not, making an offer to sell the Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this offering circular and the offering of the Notes may in certain jurisdictions be restricted by law. Persons into whose possession this offering circular comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this offering circular, see “Transfer Restrictions” and “Plan of Distribution.”

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

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

## **CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION**

We have prepared this offering circular using a number of conventions, which you should consider when reading the information contained herein. When we use the terms “we,” “us,” “our,” “the Company” and words of similar import, we are referring to Powerlong Real Estate Holdings Limited itself, or to Powerlong Real Estate Holdings Limited and its consolidated subsidiaries, as the context requires.

Market data and certain industry forecast and statistics in this offering circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchasers or their respective directors and advisors, and neither us, the Initial Purchasers nor our or their respective directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering circular summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of us and the terms of the offering and the Notes, including the merits and risks involved.

The statistics set forth in this offering circular relating to the PRC and the property industry in the PRC were taken or derived from various government and private publications. The Initial Purchasers do not make any representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the statistics herein may be inaccurate and should not be unduly relied upon.

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

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering circular, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.20000 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on June 30, 2015, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK\$7.7513 to US\$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on June 30, 2015. All such translations in this offering circular are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see “Exchange Rate Information.”

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

References to the “2014 Notes” are to our RMB750,000,000 11.5% Senior Notes due 2014 issued pursuant to an indenture dated March 17, 2011, as supplemented by a supplemental indenture dated January 20, 2014. We repaid the 2014 Notes at maturity in March 2014.

References to the “2015 Notes” are to our US\$200,000,000 13.75% Senior Notes due 2015 issued pursuant to an indenture dated September 16, 2010, as supplemented by the supplemental indentures dated January 20, 2014 and July 16, 2014. We redeemed the 2015 Notes in full in October 2014.

References to the “2016 Notes” are to our RMB800,000,000 9.50% Senior Notes due 2016 issued pursuant to an indenture dated May 27, 2013, as supplemented by the supplemental indentures dated January 20, 2014, July 16, 2014 and December 12, 2014. See “Description of Material Indebtedness and Other Obligations — 2016 Notes.”

References to the “2017 Notes” are to our RMB1,500,000,000 10.75% Senior Notes due 2017 issued pursuant to an indenture dated September 18, 2014. See “Description of Material Indebtedness and Other Obligations — 2017 Notes.”

References to the “2018 Notes” are to our US\$250,000,000 11.25% Senior Notes due 2018 issued pursuant to an indenture dated January 25, 2013, as supplemented by the supplemental indentures dated January 20, 2014, July 16, 2014 and December 12, 2014. See “Description of Material Indebtedness and Other Obligations — 2018 Notes.”

References to the “Private Placement Notes” are to our HK\$1,000,000,000 13.8% Senior Notes due 2014 issued pursuant to an indenture dated September 8, 2011, as supplemented by the supplemental indentures dated November 29, 2013, January 20, 2014 and July 16, 2014. We repaid the Private Placement Notes at maturity in September 2014.

References to “share” are to, unless the context indicates otherwise, an ordinary share, with a nominal value of HK\$0.01, in our share capital.

In this offering circular, unless the context otherwise requires, all references to “affiliate” are to a person or entity directly or indirectly controlled by, or under the direct or indirect common control of, another person or entity; all references to “subsidiary” are used with the meaning ascribed to it in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, or the Listing Rules.

In this offering circular, a land grant contract refers to a state-owned land use rights grant contract (國有土地使用權出讓合同) between a developer and the relevant PRC governmental land administrative authorities, typically the local state-owned land bureaus.

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

References to the “Hoi family” in this offering circular are to Hoi Kin Hong, Hoi Wa Fong, Hoi Wa Fan and Shih Sze Ni.

A property is considered sold after we have executed the purchase contract with a customer and have delivered the property to the customer. All site area and GFA information presented in this offering circular represent the site area and GFA of the entire project, including those attributable to the minority shareholders of our non-wholly owned project companies.

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

## FORWARD-LOOKING STATEMENTS

This offering circular includes “forward-looking statements.” All statements other than statements of historical fact contained in this offering circular, including, without limitation, those regarding our future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “aim,” “intend,” “will,” “may,” “anticipate,” “seek,” “should,” “estimate” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our business and operating strategies;
- our capital expenditure plans;
- various business opportunities that we may pursue;
- our operations and business prospects;
- our financial condition and results of operations;
- availability of and changes to bank loans and other forms of financing;
- the industry outlook generally;
- future developments in and the performance of the property market in the PRC;
- changes in political, economic, legal and social conditions in the PRC, including the PRC government’s, specific policies which affect land supply, availability and cost of financing, and pre-sale, pricing and volume of our property developments;
- the timely repayments by our purchasers of mortgage loans guaranteed by us;
- changes in competitive conditions and our ability to compete under these conditions;
- the performance of the obligations and undertakings of the independent contractors under various construction, building, interior decoration and installation contracts;
- changes in currency exchange control and rates;
- significant delay in obtaining the occupation permits, proper legal titles or approvals for our properties under development or held for future development; and
- other factors beyond our control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Risk Factors” and elsewhere in this offering circular. We caution you not to place undue reliance on these forward-looking statements which reflect our management’s view only as of the date of this offering circular. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering circular might not occur.



## GLOSSARY OF TECHNICAL TERMS

“commodity properties” . . . .	residential properties, commercial properties and other buildings that are developed by property developers for the purposes of sale or lease after their completion.
“GFA” . . . . .	gross floor area as approved by the relevant PRC government authority or in respect of which application has been made for approval.
“land grant contract” . . . . .	an agreement between a property developer and a PRC land authority in respect of the grant of the state-owned land use rights of a parcel of land to such property developer.
“land grant confirmation agreement” . . . . .	a confirmation given by a PRC land authority that a property developer has won the bid for the land use rights of a parcel of land in the government-organized land bidding, auction or listing-for-sale process.
“land use right transfer agreement” . . . . .	an agreement in respect of the transfer of the land use rights of a parcel of land by the previous grantee of the land use rights in the secondary market.
“land grant or transfer document” . . . . .	a land grant contract, land grant confirmation agreement or land use right transfer agreement.
“LAT” . . . . .	land appreciation tax.
“pre-sale” . . . . .	sales of properties prior to the completion of their construction, after the satisfaction of certain conditions under PRC laws and regulations.
“sq.ft.” . . . . .	square feet.
“sq.m.” . . . . .	square meter.

## ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability, and each Subsidiary Guarantor is also incorporated or may be incorporated, as the case may be, outside the United States, such as in the Cayman Islands, the British Virgin Islands (the “BVI”) and Hong Kong. The Cayman Islands, BVI, Hong Kong and other jurisdictions have different bodies of securities laws from the United States and protections for investors may differ. All of our assets and all of the assets of the Subsidiary Guarantors are located outside the United States. In addition, all of our directors and officers and the Subsidiary Guarantors’ directors and officers are nationals or residents of countries other than the United States (principally of the PRC or Hong Kong), and all or a substantial portion of such persons’ assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the Subsidiary Guarantors or such directors and officers or to enforce against us or any of the Subsidiary Guarantors or such directors and officers judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We, each of the Subsidiary Guarantors and each of the JV Subsidiary Guarantors expect to appoint NCR Corporate Research, Ltd. as our and their respective agent to receive service of process with respect to any action brought against us, any Subsidiary Guarantor or any JV Subsidiary Guarantor in the United States federal courts located in the Borough of Manhattan, the City of New York under the federal securities laws of the United States or of any state of the United States or any action brought against us, any Subsidiary Guarantor or any JV Subsidiary Guarantor in the courts of the State of New York in the Borough of Manhattan, the City of New York under the securities laws of the State of New York.

We have been advised by our Cayman Islands legal adviser, Maples and Calder, that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, a judgment obtained in such jurisdiction will be recognised and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment:

- (a) is given by a foreign court of competent jurisdiction;
- (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given;
- (c) is final;
- (d) is not in respect of taxes, a fine or a penalty; and
- (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

We have been advised by our BVI legal adviser, Maples and Calder, that any final and conclusive monetary judgment obtained against any Subsidiary Guarantor incorporated in the BVI in the courts of United States, for a definite sum, may be treated by the courts of the BVI as a cause of action in itself so that no retrial of the issues would be necessary provided that in respect of the foreign judgment:

- (a) the foreign court issuing the judgment had jurisdiction in the matter and we either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process;
- (b) the judgment given by the foreign court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations;
- (c) in obtaining judgment there was no fraud on the part of the person in whose favour judgment was given or on the part of the court;
- (d) recognition or enforcement of the judgment in the BVI would not be contrary to public policy; and
- (e) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

We have been advised by Dorsey & Whitney, our Hong Kong legal adviser, that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. However, under Hong Kong common law, a foreign judgment (including one from a court in the United States predicated upon U.S. federal or state securities laws) may be enforced in Hong Kong by bringing an action in a Hong Kong court, and then seeking summary or default judgment on the strength of the foreign judgment, provided that the foreign judgment is for a debt or definite sum of money and is final and conclusive on the merits. In addition, the Hong Kong courts may refuse to recognize or enforce a foreign judgment if such judgment:

- (a) was obtained by fraud;
- (b) was rendered by a foreign court that lacked the appropriate jurisdiction at the time;
- (c) is contrary to public policy or natural justice;
- (d) is for penal damages; or
- (e) is based on foreign penal, revenue or other public law.

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

## SUMMARY

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

### OVERVIEW

We are a leading property developer in China specializing in the development and operation of high-quality, large-scale, integrated retail and residential complexes. Our existing property projects are generally located in prime positions of fast-growing cities in Fujian Province, Jiangsu Province, Shandong Province, Henan Province, Anhui Province and Zhejiang Province as well as Tianjin Municipality, Shanghai Municipality and Chongqing Municipality. We intend to focus our expansion in property development operations in cities in China that we believe have high growth potential. Our shares have been listed on the main board of the Hong Kong Stock Exchange since October 2009 and our market capitalization was approximately HK\$6.2 billion as of November 18, 2015.

Our business model sets us apart from many property developers in China. We focus more on owning and operating retail properties, and our strategy is to sell all the residential properties and a portion of the retail properties that we develop to generate cash flow for our business operations. We retain ownership of a significant portion of our retail properties for long-term investment to generate recurring rental income and capture potential capital appreciation. We believe our business model allows us to diversify our revenue sources, generate steady recurring revenue and reduce our reliance on a particular sector of the real estate market. Our policy going forward will generally continue to follow our current practice with respect to properties for sale and properties to be retained for investment.

We focus primarily on fast-growing, emerging cities or districts in the Yangtze River Region, and have expanded our business substantially into the Bohai Region, the Central China Region and the West Strait Region. Our projects are primarily large-scale integrated retail and residential complexes that are among the largest integrated retail and residential projects in the cities or districts where they are located. The scale of our integrated retail and residential complexes, and the enhanced lifestyles, services and other benefits they bring to the surrounding communities, means that our developments typically have support and cooperation from local governments on city planning, design and the land acquisition processes. We believe that these factors help us to acquire prime sites for our projects at relatively low cost and give our projects a competitive advantage.

Most of our property development projects are branded “Powerlong Plaza,” and are integrated retail and residential complexes, typically with a total GFA ranging between 200,000 and 750,000 square meters each. The residential units in these projects target the end-user market, and the retail portions of the projects are designed to enhance the living environment for residents and other members of the surrounding community by providing easy access to staple services such as supermarkets, department stores, restaurants and fast food outlets, personal care services and movie theatres and other entertainment. As of June 30, 2015, we had developed, were developing or were holding for future development 50 property projects, and we were in various stages of negotiations and planning with a number of other city governments to develop similar projects in other cities.

We report our revenue under the following segments, namely (i) property development; (ii) property investment; (iii) property management services; and (iv) other property development related services. For the years ended 2012, 2013, 2014 and the six months ended June 30, 2015, property development remained our key revenue driver.

*Property Development.* As of June 30, 2015, we had 50 projects which are at different phases of development. As of June 30, 2015, we had 14 fully completed projects, among which three are located in Jiangsu Province, four in Fujian Province, four in Shandong Province, one in Henan Province, one in Anhui Province and one in Shanghai Municipality. We had 36 projects under development or held for future development, among which eight are located in Shanghai Municipality, six in Jiangsu Province, four in Zhejiang Province, five in Fujian Province, six in Shandong Province, three in Tianjin Municipality, one in Anhui Province, two in Henan Province and one in Chongqing Municipality.

*Property Investment.* As of June 30, 2015, we held and operated completed investment properties, mainly shopping malls, which are mainly located at Shanghai Municipality, Wuxi, Suqian and Yancheng in Jiangsu Province, Hangzhou in Zhejiang Province, Fuzhou, Jinjiang and Anxi in Fujian Province, Tai'an, Qingdao Chengyang, Jimo, Licang and Jiaozhou in Shandong Province, Tianjin Municipality, Zhengzhou, Luoyang and Xinxiang in Henan Province, Bengbu in Anhui Province and Hechuan in Chongqing Municipality.

*Property Management.* We provide after-sales property management services to the households of each project developed by us through our wholly-owned property management subsidiaries. Such services include maintenance of public utilities, cleaning of public area, gardening and landscaping, and other customer services.

*Hotel Development.* As of June 30, 2015, we owned a total of six hotels. Five of our hotels are operated by an affiliate of Starwood Hotels & Resorts Worldwide Inc. and the remaining one is operated by us. In addition, we operate (but do not own) one hotel in Shandong Province.

The total GFA of properties we delivered in 2012, 2013, 2014 and the first six months of 2015 was 863,082 square meters, 869,904 square meters, 752,359 square meters and 568,583 square meters, respectively. We intend to retain an increasing portion of our retail properties for recurring rental income and for capital appreciation and to sell our residential properties for cash flow. Our cash flow from operations may decrease if we hold a greater portion of our developed properties for investment and, as a result, sell fewer properties. For 2012, 2013, 2014 and the six months ended June 30, 2015, our revenue from sales of properties was RMB4,975.7 million, RMB6,243.9 million, RMB8,265.2 million and RMB4,073.4 million, respectively, representing approximately 84.7%, 86.0%, 85.5% and 86.1%, respectively, of our total revenue. As of December 31, 2012, 2013, 2014 and June 30, 2015, we had leased out a total GFA of 1,166,873 square meters, 1,371,084 square meters, 1,572,837 square meters and 1,716,107 square meters, respectively. For 2012, 2013, 2014 and the six months ended June 30, 2015, our rental income was RMB320.8 million, RMB349.2 million, RMB444.8 million and RMB259.9 million, respectively, representing approximately 5.5%, 4.8%, 4.6% and 5.5%, respectively, of our total revenue.

Our revenue in 2012, 2013, 2014 and the six months ended June 30, 2015 was RMB5,871.8 million, RMB7,256.9 million, RMB9,663.0 million and RMB4,728.4 million, respectively, and our EBITDA was RMB3,460.8 million, RMB1,883.9 million, RMB2,438.4 million and RMB1,722.3 million respectively.

## **RECENT DEVELOPMENT**

On November 17, 2015, we, through an indirect wholly-owned subsidiary, successfully acquired the land use rights for a parcel of land located in Baoshan District, Shanghai, the PRC at a consideration of RMB1,222.0 million. Pursuant to our anticipated development plan and the estimated total GFA of the land, we expect that approximately 40,000 square meters out of the total GFA of 187,419.54 square meters, representing approximately 21% of the total GFA of the land, will be held for investment and the remaining portion of the land will be developed for sale.

## **OUR COMPETITIVE STRENGTHS**

- Proven standardized development model
- High quality and well-diversified land bank and portfolio
- Strong contracted sales provide ample operational flexibility
- Strong recurring income and established tenants network
- Proven ability to secure land at low cost
- Experienced management team and recognized brand value

## **OUR BUSINESS STRATEGIES**

- Strategic commercial property projects to generate stable recurring income and product positioning
- Achieve further geographical diversification in China
- Continue to actively monitor and manage capital needs
- Continue to develop standardized product lines
- Standardize and improve operation management

## THE OFFERING

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

Issuer	Powerlong Real Estate Holdings Limited (the “Company”)
Notes Offered	US\$200,000,000 aggregate principal amount of 7.625% Senior Notes due 2018 (the “Notes”)
Offering Price	99.017% of the principal amount of the Notes
Maturity Date	November 26, 2018
Interest	The Notes will bear interest from and including November 26, 2015 at the rate of 7.625% per annum, payable semi-annually in arrears.
Interest Payment Dates	May 26 and November 26 of each year, commencing May 26, 2016.
Ranking of the Notes	The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the 2017 Notes, the 2018 Notes, the 2016 Notes and all unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption “Description of the Notes — The Subsidiary Guarantees and JV Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;
- effectively subordinated to the other secured obligations of the Company and the Subsidiary Guarantors and the JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

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

- be entitled to a first priority Lien on the Collateral (subject to any Permitted Liens) shared on a *pari passu* basis with (i) the holders of the 2017 Notes, (ii) the holders of the 2018 Notes, (iii) the holders of the 2016 Notes and (iv) any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness;

- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law); and
- rank effectively senior in right of payment to unsecured obligations of the Subsidiary Guarantor Pledgors to the extent of the Collateral charged by each Subsidiary Guarantor Pledgor securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees . . . . . Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes.

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

The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than (i) those Restricted Subsidiaries organized under the laws of the PRC and (ii) certain other subsidiaries specified in “Description of the Notes.”

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

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

Ranking of Subsidiary Guarantees . . . . . The Subsidiary Guarantee of each Subsidiary Guarantor:

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



Subsidiary Guarantees of each Subsidiary Guarantor Pledgor:

- will be entitled to a first priority Lien on the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor shared on a *pari passu* basis with (i) the holders of the 2017 Notes, (ii) the holders of the 2018 Notes, (iii) the holders of the 2016 Notes and (iv) any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

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

JV Subsidiary Guarantees . . .

A JV Subsidiary Guarantee is required to be delivered by a Subsidiary Guarantor and the Company if the Company wishes to release such Subsidiary Guarantor from its Subsidiary Guarantee following a sale by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale is for no less than 20% and no more than 49.9% of the issued Capital Stock of the relevant Subsidiary Guarantor. The initial JV Subsidiary Guarantors are Baohui Real Estate (Hong Kong) Holdings Limited, Powerlong Golden Wheel Coral Company Limited and Powerlong Golden Wheel International Famous Limited. The JV Subsidiary Guarantee of the JV Subsidiary Guarantor:

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

The Company may also deliver a JV Subsidiary Guarantee instead of a Subsidiary Guarantee on substantially similar conditions for certain Restricted Subsidiaries that are established after the Original Issue Date. As of the date of this offering circular, we have three JV Subsidiary Guarantors.

Intercreditor Agreement . . . . .	<p>The Company, the Subsidiary Guarantor Pledgors, the Security Agent, 2015 Notes Trustee on behalf of the holders of the 2015 Notes and the facility agent on behalf of the lenders under a facility (the “Facility”) entered into an intercreditor agreement dated March 9, 2011 (as supplemented by the accession deeds set out below the “Intercreditor Agreement”). The Facility was repaid in June 2013 and the 2015 Notes were redeemed in October 2014.</p>
	<p>The 2017 Notes Trustee on behalf of the holders of the 2017 Notes, the 2018 Notes Trustee on behalf of the holders of the 2018 Notes and the 2016 Notes Trustee on behalf of the holders of the 2016 Notes each executed accession deeds to the Intercreditor Agreement on January 25, 2013 and May 27, 2013 and September 18, 2014, respectively. On or prior to the Original Issue Date, the Trustee on behalf of the holders of the Notes will execute an accession deed to the Intercreditor Agreement to accede as a creditor to the Intercreditor Agreement. The Intercreditor Agreement will provide, among other things, that the security interests created over the Collateral will be shared on a <i>pari passu</i> basis among (i) the holders of the 2017 Notes, (ii) the holders of the 2018 Notes, (iii) the holders of the 2016 Notes, (iv) the holders of the Notes and (v) any other creditors with respect to Permitted Pari Passu Secured Indebtedness.</p>
Optional Redemption . . . . .	<p>At any time, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date, as set forth in “Description of the Notes — Optional Redemption.”</p> <p>At any time, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price equal to 107.625% of the principal amount of the applicable Notes, plus accrued and unpaid interest, if any, with the proceeds from sales of certain kinds of its capital stock, subject to certain conditions.</p>
Repurchase of Notes Upon a Change of Control Triggering Event . . . . .	<p>Upon the occurrence of a Change of Control Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the repurchase date.</p>
Redemption for Taxation Reason . . . . .	<p>Subject to certain exceptions and as more fully described herein, the Company may redeem the Notes, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company, a Subsidiary Guarantor or a JV Subsidiary Guarantor would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws or certain other circumstances. See “Description of the Notes — Redemption for Taxation Reasons.”</p>

Covenants . . . . .	<p>The Notes, the Indenture governing the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees will limit the Company’s ability and the ability of its Restricted Subsidiaries to, among other things:</p> <ul style="list-style-type: none"> <li>• incur or guarantee additional indebtedness and issue Disqualified Stock or Preferred Stock;</li> <li>• declare dividends on its Capital Stock or purchase or redeem Capital Stock;</li> <li>• make investments or other specified restricted payments; issue or sell Capital Stock of Restricted Subsidiaries; guarantee indebtedness of Restricted Subsidiaries;</li> <li>• sell assets;</li> <li>• create liens;</li> <li>• enter into sale and leaseback transactions;</li> <li>• enter into agreements that restrict the Restricted Subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans;</li> <li>• enter into transactions with shareholders or affiliates; and effect a consolidation or merger.</li> </ul> <p>These covenants are subject to a number of important qualifications and exceptions described in “Description of the Notes — Certain Covenants.”</p>
Transfer Restrictions . . . . .	<p>The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”</p>
Form, Denomination and Registration. . . . .	<p>The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 of principal amount and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of a common depositor as for Euroclear or Clearstream.</p>
Book-Entry Only . . . . .	<p>The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants. For a description of certain factors relating to clearance and settlement, see “Description of the Notes — Book-entry; Delivery and Form.”</p>
Delivery of the Notes . . . . .	<p>The Company expects to make delivery of the Notes, against payment in same-day funds on or about November 26, 2015. You should note that initial trading of the Notes may be affected by the settlement date. See “Plan of Distribution.”</p>
Trustee . . . . .	Citicorp International Limited
Paying Agent and Transfer Agent . . . . .	Citibank, N.A., London Branch
Security Agent . . . . .	Citicorp International Limited

Registrar . . . . .	Citibank, N.A., London Branch
Listings . . . . .	Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST. The listing and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantor or the Notes. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Notes are listed on the SGX-ST.
Security Codes . . . . .	Common Code: 132420416  ISIN: XS1324204160
Governing Law . . . . .	The Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.
Risk Factors . . . . .	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.”

## SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary financial data as of and for each of the fiscal years ended December 31, 2012, 2013 and 2014 is derived from our audited consolidated financial statements for those periods and as of the dates indicated. The summary financial data as of June 30, 2015 and for the six-month period ended June 30, 2015 is derived from our unaudited condensed consolidated interim financial information included elsewhere in this offering circular. The unaudited condensed consolidated interim financial information as of and for the six-month period ended June 30, 2014 and 2015 contains all adjustments that our management believes are necessary for the fair presentation of such information. Results for interim periods are not indicative of results for the full year. Our financial statements for the years ended December 31, 2012, 2013 and 2014 have been prepared and presented in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and our financial information for the six months ended June 30, 2015 have been presented and presented in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”, which may differ in material respects from generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the notes to those statements included elsewhere in this offering circular.

### Summary Consolidated Income Statement Information

	Year Ended December 31,				Six months ended June 30,		
	2012	2013	2014	2014	2014	2015	2015
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
(in thousands, except per share data and percentages)							
<b>Revenue</b> . . . . .	5,871,763	7,256,938	9,662,995	1,558,548	4,422,701	4,728,402	762,645
Cost of sales. . . . .	<u>(3,540,058)</u>	<u>(5,201,756)</u>	<u>(6,880,023)</u>	<u>(1,109,681)</u>	<u>(3,130,748)</u>	<u>(3,202,764)</u>	<u>(516,575)</u>
<b>Gross profit</b> . . . . .	2,331,705	2,055,182	2,782,972	448,867	1,291,953	1,525,638	246,070
Fair value gains on investment properties — net . . . . .	1,743,684	530,672	599,325	96,665	214,256	701,316	113,115
Selling and marketing costs . . . . .	(208,258)	(240,509)	(395,666)	(63,817)	(151,340)	(209,604)	(33,807)
Administrative expenses . . . . .	(505,331)	(583,970)	(676,140)	(109,055)	(333,126)	(350,854)	(56,589)
Other gains/(losses) — net . . . . .	(56,440)	95,370	(124,963)	(20,155)	(29,357)	13,010	2,098
Exchange (losses)/gains — net. . . . .	248	(22,543)	4,721	761	6,075	5,139	829
<b>Operating profit</b> . . . . .	3,305,608	1,834,202	2,190,249	353,266	998,461	1,684,645	271,716
Finance income/(costs) — net . . . . .	(29,389)	121,023	(30,606)	(4,936)	(73,581)	2,587	417
Share of profit of investments accounted for using the equity method . . . . .	134,079	108,365	(709)	(114)	52,375	41,799	6,742
<b>Profit before income tax</b> . . . . .	3,410,298	2,063,590	2,158,934	348,216	977,255	1,729,031	278,875
Income tax expense . . . . .	<u>(1,197,312)</u>	<u>(663,414)</u>	<u>(651,340)</u>	<u>(105,055)</u>	<u>(260,823)</u>	<u>(585,537)</u>	<u>(94,441)</u>
<b>Profit for the year/period</b> . . . . .	<u>2,212,986</u>	<u>1,400,176</u>	<u>1,507,594</u>	<u>243,161</u>	<u>716,432</u>	<u>1,143,494</u>	<u>184,434</u>

	Year Ended December 31,				Six months ended June 30,		
	2012	2013	2014	2014	2014	2015	2015
	RMB (audited)	RMB (audited)	RMB (audited)	US\$ (unaudited)	RMB (unaudited)	RMB (unaudited)	US\$ (unaudited)
	(in thousands, except per share data and percentages)						
<b>Profit attributable to:</b>							
Owners of the Company . . . . .	2,193,852	1,403,536	1,370,828	221,101	758,823	1,030,458	166,203
Holders of Perpetual Capital Instruments . . . . .	—	—	36,750	5,927	972	72,754	11,734
Non-controlling interests . . . . .	19,134	(3,360)	100,016	16,132	(43,363)	40,282	6,497
	<u>2,212,986</u>	<u>1,400,176</u>	<u>1,507,594</u>	<u>243,160</u>	<u>716,432</u>	<u>1,143,494</u>	<u>184,434</u>
<b>Dividends . . . . .</b>	<u>323,841</u>	<u>—</u>	<u>252,278</u>	<u>40,690</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>NON-GAAP FINANCIAL DATA</b>							
EBITDA <sup>(1)</sup> . . . . .	3,460,813	1,883,897	2,438,350	393,282	1,079,042	1,722,312	277,793
EBITDA margin <sup>(2)</sup> . . . . .	<u>59%</u>	<u>26%</u>	<u>25%</u>	<u>25%</u>	<u>24%</u>	<u>36%</u>	<u>36%</u>
<b>Notes:</b>							
(1)	EBITDA for any period consists of profit before interest income, other gains/losses net, depreciation and amortization expenses, finance costs/income, share of profit/loss of investments accounted for using equity method and income tax expenses. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest or other non-operating expenses/income. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to service debt and pay taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the period under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.						
(2)	EBITDA margin is calculated by dividing EBITDA by revenues for the relevant period, expressed as a percentage.						

## Selected Consolidated Balance Sheet Information

	As of December 31,				As of June 30,	
	2012	2013	2014	2014	2015	2015
	RMB (audited)	RMB (audited)	RMB (audited)	US\$ (unaudited)	RMB (unaudited)	US\$ (unaudited)
	(in thousands)					
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property and equipment . . . . .	1,578,966	1,694,201	1,898,666	306,236	2,019,850	325,782
Land use rights . . . . .	543,527	569,862	797,138	128,571	1,018,818	164,326
Investment properties . . . . .	18,147,844	19,590,330	24,381,596	3,932,515	26,400,985	4,258,223
Investments accounted for using the equity method . . . . .	1,012,423	1,148,972	1,548,554	249,767	1,411,904	227,727
Deferred income tax assets . . . . .	167,094	203,065	380,313	61,341	333,701	53,823
Derivative financial instruments . . . . .	—	11,406	—	—	—	—
Available-for-sale financial assets . . . . .	—	—	—	—	180,000	29,032
Loans . . . . .	270,000	—	—	—	—	—
	<u>21,719,854</u>	<u>23,217,836</u>	<u>29,006,267</u>	<u>4,678,430</u>	<u>31,365,258</u>	<u>5,058,913</u>
<b>Current assets</b>						
Properties under development . . . . .	10,789,478	11,371,010	13,668,618	2,204,616	14,555,957	2,347,735
Completed properties held for sale . . . . .	2,649,985	3,521,049	6,162,421	993,939	8,291,907	1,337,404
Trade and other receivables . . . . .	1,452,635	1,989,387	2,196,727	354,311	2,214,502	357,177
Prepayments . . . . .	1,371,281	3,304,061	852,374	137,480	679,061	109,526
Prepaid taxes . . . . .	195,964	241,216	300,334	48,441	379,534	61,215
Available-for-sale financial assets . . . . .	16,462	30,801	16,042	2,587	17,190	2,773
Financial assets at fair value through profit or loss . . . . .	1,750	14,600	1,500	242	—	—
Restricted cash . . . . .	557,979	378,508	603,687	97,369	647,959	104,510
Cash and cash equivalents . . . . .	1,452,217	4,434,449	4,345,757	700,928	4,349,926	701,601
	<u>18,487,751</u>	<u>25,285,081</u>	<u>28,147,460</u>	<u>4,539,913</u>	<u>31,136,036</u>	<u>5,021,941</u>
<b>Total assets . . . . .</b>	<u><b>40,207,605</b></u>	<u><b>48,502,917</b></u>	<u><b>57,153,727</b></u>	<u><b>9,218,343</b></u>	<u><b>62,501,294</b></u>	<u><b>10,080,854</b></u>
<b>EQUITY</b>						
<b>Equity attributable to owners of the Company</b>						
Share capital and premium . . . . .	3,035,471	3,035,471	2,979,696	480,596	2,979,696	480,596
Other reserves . . . . .	488,132	512,464	664,827	107,230	668,491	107,821
Retained earnings . . . . .	12,515,461	13,589,210	14,965,316	2,413,761	15,746,360	2,539,735
	<u>16,039,064</u>	<u>17,137,145</u>	<u>18,609,839</u>	<u>3,001,587</u>	<u>19,394,547</u>	<u>3,128,153</u>
<b>Perpetual capital instruments . . . . .</b>	—	—	1,302,139	210,022	1,304,531	210,408
<b>Non-controlling interests . . . . .</b>	460,376	508,988	697,504	112,501	737,786	118,998
<b>Total equity . . . . .</b>	<u><b>16,499,440</b></u>	<u><b>17,646,133</b></u>	<u><b>20,609,482</b></u>	<u><b>3,324,110</b></u>	<u><b>21,436,864</b></u>	<u><b>3,457,559</b></u>

	As of December 31,				As of June 30,	
	2012	2013	2014	2014	2015	2015
	RMB (audited)	RMB (audited)	RMB (audited)	US\$ (unaudited)	RMB (unaudited)	US\$ (unaudited)
	(in thousands)					
<b>LIABILITIES</b>						
<b>Non-current liabilities</b>						
Borrowings . . . . .	7,731,776	11,854,736	14,294,043	2,305,491	14,663,620	2,365,100
Deferred income tax liabilities . . . . .	3,009,963	3,187,587	3,314,613	534,615	3,489,040	562,748
Derivative financial instruments . . . . .	—	—	81,178	13,093	53,025	8,552
	<u>10,741,739</u>	<u>15,042,323</u>	<u>17,689,834</u>	<u>2,853,199</u>	<u>18,205,685</u>	<u>2,936,400</u>
<b>Current liabilities</b>						
Trade and other payables . . . . .	3,910,015	4,869,464	7,727,082	1,246,304	10,522,744	1,697,217
Advances from customers . . . . .	3,633,826	4,186,307	4,641,997	748,709	5,153,353	831,186
Current income tax liabilities . . . . .	2,100,335	2,183,267	2,194,391	353,934	2,178,184	351,320
Borrowings . . . . .	3,322,250	4,575,423	4,290,941	692,087	4,985,524	804,117
Derivative financial instruments . . . . .	—	—	—	—	18,940	3,055
	<u>12,966,426</u>	<u>15,814,461</u>	<u>18,854,411</u>	<u>3,041,034</u>	<u>22,858,745</u>	<u>3,686,895</u>
<b>Total liabilities . . . . .</b>	<u>23,708,165</u>	<u>30,856,784</u>	<u>36,544,245</u>	<u>5,894,233</u>	<u>41,064,430</u>	<u>6,623,295</u>
<b>Total equity and liabilities . . . . .</b>	<u>40,207,605</u>	<u>48,502,917</u>	<u>57,153,727</u>	<u>9,218,343</u>	<u>62,501,294</u>	<u>10,080,854</u>



## RISK FACTORS

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

### RISKS RELATING TO OUR BUSINESS

#### **We are dependent on the performance of the real estate market in China, particularly in the cities and regions in which we develop our property projects and manage the properties we have developed**

Our business and prospects depend on the performance of the real estate market in the PRC. Any property market downturn in China generally or, in particular, in the cities and regions in which we have property projects could adversely affect our business, results of operations and financial position. As of June 30, 2015, we had 14 fully completed projects and 36 projects under development or held for future development. The fully completed projects have an aggregate total GFA of approximately 8.9 million square meters. The properties under development and held for future development have an estimated aggregate total GFA of approximately 10.8 million square meters. As consumer spending changes due to changing economic conditions, we cannot assure you that the demand for new retail or residential properties in the regions where we have operations will continue to grow. In addition, we cannot assure you that there will not be any over-supply of properties or economic downturn in the cities and regions where we have property projects. Any such over-supply or economic downturn may result in a decline in property sales or property prices regionally and/or nationally, which would have a material adverse effect on our business, results of operations and financial position. Demand for our properties may be affected by the macro-economic control measures implemented by the PRC government from time to time, including recently announced additional measures designed to stabilize growth in the PRC economy as a whole and in the property market in particular. See “Risks Relating to the Property Development Industry in China — 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 profitability and results of operations are impacted by the development and profitability of our retail property leasing segment**

In addition to property development, leasing our investment properties constitutes an integral part of our business. For the years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, revenue generated from our property investment segment constituted approximately 5.5%, 4.8%, 4.6% and 5.5%, respectively, of our total revenue. If there is a significant downturn in the retail property leasing markets in the cities and regions where we have investment properties, we may not be able to maintain our current levels of rental income. In addition, we may not be able to renew leases with our tenants on terms acceptable to us, or at all, upon the expiration of the existing terms. As some of our leases are long-term leases ranging from 10 to 20 years, we may not be able to increase rent levels during the lease terms. As we seek to increase our portfolio of retail investment properties, leasing our properties will become an increasingly major contributor to our revenue going forward. We may not, however, be able to identify or secure suitable tenants for our retail properties. Our inability to expand our portfolio of retail properties for lease and operations, secure suitable tenants or otherwise to enhance the profitability of our leasing segment or to maintain our current levels of rental income would have a material adverse effect on our business, results of operations and financial position.

#### **We may not have adequate resources to fund land acquisitions or find appropriate partners to fund land acquisitions or property developments, or to service our financing obligations**

The property development business is capital intensive. We have financed our land acquisition and property developments primarily through a combination of internal funds, borrowings from both domestic and foreign banks, pre-sales and sales proceeds, and proceeds from capital markets financings, including proceeds from the 2018 Notes, the 2016 Notes and the 2017 Notes. However, we have a

significant amount of outstanding land premiums and we cannot assure you that we will have sufficient cash flow available for land acquisitions, paying our committed land premiums or property developments or that we will be able to achieve sufficient pre-sales and sales to fund land acquisitions or property developments. In addition, we cannot assure you that we will be able to secure external financing on terms acceptable to us or at all. As of June 30, 2015, our outstanding non-current and current borrowings were RMB14,663.6 million and RMB4,985.5 million, respectively.

Our ability to arrange adequate financing for land acquisitions or find appropriate partners to fund 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. See “Risks Relating to the Property Development Industry 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. We cannot assure you that the PRC government will not introduce other initiatives which may limit our access to capital resources. The foregoing and other initiatives introduced by the PRC government may limit our flexibility and ability to use bank loans or other forms of financing to finance our property developments and therefore may require us to maintain a relatively high level of internally sourced cash. For example, in September 2010, the PBOC and the CBRC jointly issued a notice to prohibit banks from lending to any property developer for its new projects or renewal of its existing loans if such developer has a track record of maintaining idle land, changing the use and nature of land without proper approval, delaying the construction commencement or completion date, hoarding properties or other non-compliance. We cannot assure you that we will be able to secure adequate financing to fund our land acquisitions (including any unpaid land premium for past acquisitions) to finance our project construction or to renew our existing credit facilities prior to their expiration. Our failure to do so may adversely affect our business, financial condition and results of operations.

**Our results of operations for each of the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015 included unrealized revaluation increases on investment properties, which would not necessarily lead to realized cash flow**

For the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, we had fair value gains on our investment properties, representing 51.1%, 25.7%, 27.8% and 40.6% of our profit before income tax for the respective years. Upward revaluation adjustments, which reflected unrealized capital gains on our investment properties during the relevant years, were not profit generated from the sales or leasing of our investment properties, and did not generate any actual cash inflow to us. Unless such investment properties are disposed of at similarly revalued amounts, we will not realize actual cash flow for purposes such as servicing our debt obligations. The amount of revaluation adjustments have been, and will continue to be, significantly affected by the prevailing property markets and will be subject to market fluctuations. These factors are beyond our control and we cannot assure you that we will continue to record similar levels of revaluation increases in the future or that the value of our investment properties will not decrease in the future. In the event that there are material downward adjustments in the value of our investment properties in the future, our business, results of operations and financial position may be materially adversely affected.

**We have experienced periods of net cash outflow from operating activities in the past and we cannot assure you that we will not experience periods of net cash outflow from operating activities in the future**

We have experienced periods of net cash outflow from operating activities in the past. For the years ended December 31, 2012, 2013 and 2014, we had net cash outflow from operating activities in the amount of RMB873.3 million, RMB2,138.7 million and RMB1,151.4 million, respectively and for the six months ended June 30, 2015, we had net cash inflow from operating activities of RMB3.6 million. The net cash outflows were primarily due to cash expenditures on construction costs we incurred prior to commencement of pre-sales as we significantly grew our portfolio of developments and increased the number of projects that has commenced development. We cannot assure you that we will not experience periods of net cash outflow from operating activities in the future. If we continue to have net cash outflow from operating activities in the future, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our total borrowings as of December 31, 2012, 2013, 2014 and June 30, 2015 were RMB11,054.0 million, RMB16,430.2 million, RMB18,585.0 million and RMB19,649.1 million, respectively. Since the listing of our shares on the main board of the Hong Kong Stock Exchange in October 2009, we have incurred substantial additional indebtedness, including US\$200.0 million from the issuance of the 2015 Notes, RMB750.0 million from the issuance of the 2014 Notes, HK\$1.0 billion from the issuance of the Private Placement Notes, US\$250 million from the issuance of the 2018 Notes, RMB800 million from the issuance of the 2016 Notes and RMB1,500,000,000 from the issuance of the 2017 Notes. The 2014 Notes and the Private Placement Notes have matured and were repaid in March and September 2014, respectively, and we redeemed the 2015 Notes in full in October 2014.

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

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

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Although the Indenture governing the Notes, the indenture governing the 2018 Notes, the indenture governing the 2016 Notes and the indenture governing the 2017 Notes, each restrict us and our Restricted Subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

**We may not be able to continue to attract and maintain key tenants for our commercial complexes**

Our retail properties compete for tenants with a number of other retail properties in the surrounding areas on the basis of a wide range of factors, including location, appearance, age, construction quality, maintenance and design. We also compete for tenants on the basis of rent levels and other lease terms. We seek to maintain the quality and attractiveness of our retail complexes by securing long-term partnerships with domestic and foreign retailers across a wide spectrum of industries. See “Business — Investment Properties — Tenants and Leases.” However, we cannot assure you that existing and prospective tenants will not move into the properties of our competitors. Also, because our leases may include short-term leases, rental income from our properties is sensitive to market fluctuations. As a result, we may lose current and potential tenants to our competitors and have difficulty renewing leases or entering into new leases. An increase in the number of competing properties, particularly in close proximity to our properties, could increase competition for tenants, reduce the relative attractiveness of our properties and force us to reduce rent or incur additional costs in order to make our properties more attractive. If we are not able to consistently compete effectively for commercial tenants with other property developers or operators, our occupancy rates may decline. If we fail to attract well-known retailers as our tenants or maintain our existing anchor tenants, the attractiveness and competitiveness of our integrated retail and residential complexes may be adversely affected. This in turn could have a material adverse effect on our business, reputation, results of operations and financial position.

### **A default by an anchor tenant could result in a significant loss of rental income, a reduction in asset value and increased bad debts**

We derive a significant portion of our revenue directly or indirectly from rent received from our anchor tenants. Anchor tenants generally pay a significant portion of the total rents in respect of a retail complex and, in some cases, contribute to the success of securing other tenants by attracting significant numbers of customers to the property. A downturn in business, bankruptcy or insolvency could force an anchor tenant to default on its rental obligations and/or vacate the premises. Such a default, in particular by one of our top five tenants, could result in a loss of rental income and an increase in bad debts, and decrease the value of the property. Moreover, such a default may prevent us from increasing rents or result in lease terminations by, or reductions in rents for, other tenants under the conditions of their leases. Any of the above effects of a default by an anchor tenant could have a material adverse effect on our business, results of operations and financial position.

### **The PRC government has implemented restrictions on the ability of PRC property developers to obtain offshore financing which could affect our ability to deploy the funds raised outside of China in our business in the PRC**

In 2013, SAFE issued a notice that stipulate, 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 Ministry of Commerce (the “MOFCOM”) 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 MOFCOM. These regulations effectively restrict us from injecting funds raised offshore including proceeds of this offering into our PRC foreign-invested project companies by way of shareholder loans. Without having the flexibility to transfer funds to PRC foreign-invested subsidiaries as loans, we cannot assure you that the dividend payments from our PRC foreign-invested subsidiaries will be available on each interest payment date to pay the interest due and payable under the Notes, or on the maturity date to pay the principal of the outstanding Notes.

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 provincial branch of 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 of 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.

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

Our financing costs and as a result, our business, financial condition and results of operations, are affected by changes in interest rates. A substantial portion of our borrowings are linked to benchmark lending rates published by the PBOC. From April 2006 to December 2007, the PBOC raised the benchmark one-year lending rate eight times from 5.58% to 7.47%. Beginning in 2008, the PBOC decreased the benchmark one-year lending rate five times from 7.47% to 5.31% in December 2008. In December 2010, the PBOC increased the benchmark one-year lending rate to 5.81%. In February 2011, the PBOC increased the benchmark one-year lending rate to 6.06%, increased to 6.31% effective from April 6, 2011 and increased to 6.56% effective from July 7, 2011, although the PBOC subsequently lowered the one-year benchmark lending rate by 25 basis points in June 2012 and by 31 basis points in July 2012 and canceled the lower limit of 0.7 times for loan interest of financial institutions. The PBOC may raise lending rates in the future, in which case our business, financial condition and results of operations will be adversely affected as a result. We are also exposed to fluctuations in the Hong Kong Interbank Offered Rate (“HIBOR”). We have entered into certain credit facilities denominated in H.K. dollars, which carry interest rates linked to HIBOR. For details on these credit facilities, see “Description

of Other Material Indebtedness — Hong Kong Loan Facilities.” Higher interest rates may increase our finance costs, and our business, financial condition and results of operations could be adversely affected. Our interest expenses on the total borrowings for the years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015 were RMB1,138.1 million, RMB1,396.3 million, RMB1,624.1 million and RMB801.4 million, respectively.

**Our profit level and margin are affected by our turnover mix and other factors and we may not be able to sustain our existing level of profit**

We recorded gross profit margins of approximately 39.7%, 28.3%, 28.8% and 32.3% for each of the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, respectively. Factors including the change of the mix of our revenue sources, such as the proportion of properties sold and properties held for investment and the proportion of our residential and retail properties sold, intensified market competition, failure to achieve sales targets and failure to negotiate volume discounts with suppliers on favorable terms, may reduce our gross profit margin. Our gross profit margin decreased by 11.4% in 2013 as compared to that in 2012 primarily as a result of a change in the regional distribution and format of the property projects sold and delivered. We cannot assure you that we can always maintain or increase our gross profit margin. In the event that we are unable to maintain or increase our gross profit margin, our profitability may be materially adversely affected. See “— We may not be able to obtain land reserves that are suitable for our model of project development” and “— We may be affected by the performance of third party contractors and prices of construction materials” below.

Our profit level and margin have historically fluctuated due to a number of factors, including the proportion of properties sold and properties held for investment as well as intensified market competition, particularly for residential properties. If we are not able to maintain or increase our gross profit margin, our profitability may be materially and adversely affected. See “Risk Factors — Our profit level and margin are affected by our turnover mix and other factors and we may not be able to sustain our existing level of profit.”

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

We reassess the fair value of our investment properties at every reported balance sheet date. In accordance with HKFRS, gains or losses (as applicable) arising from changes in the fair value of our investment properties should be accounted for in our income statements in the period in which they arise. Our valuations are based on current prices in an active market for similar properties or estimated by adopting the income capitalization approach based on existing and current market rents for similar properties, using capitalization rates that reflect current market assessments of the uncertainty in the market. Based on such valuation, we recognize the aggregate fair market value of our investment properties on our consolidated balance sheets, and recognize changes in fair values of investment properties and the relevant deferred tax in our consolidated income statements. For the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, we recognized fair value gains on our investment properties of RMB1,743.7 million, RMB530.7 million, RMB599.3 million and RMB701.3 million, respectively. Fair value gains or losses do not, however, change our cash position as long as the relevant investment properties are held by us, and accordingly do not increase our liquidity in spite of the increased profit represented by any fair value gains. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. Macroeconomic factors, including economic growth rate, interest rate, inflation rate, urbanization rate and disposable income level, in addition to any government regulations, can substantially affect the fair value of our investment properties and affect the supply and demand in the PRC property market. All these factors are beyond our control and we cannot assure you that changes in market conditions will continue to create fair value gains on our investment properties at the historical levels, or at all, or that the fair value of our investment properties will not decrease in the future. If the fair value of our investment properties declines, our profitability would be materially and adversely affected.

**We may not be able to obtain land reserves that are suitable for our model of project development**

We derive our revenue principally from the sale of properties that we have developed. Therefore we must maintain or increase our land reserves, each with sufficient size and appropriate scope of usage for our project model, in strategic locations at an appropriate pace in order to ensure sustainable business growth.

Our ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond our control. The PRC government controls the availability of land in China. The PRC government's land supply policies have a direct impact on our ability to acquire land use rights and our costs of acquisition. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which property developers may obtain land. The PRC government also controls land supply through zoning, land usage regulations and other measures. All these measures further intensify the competition for land in China among property developers.

In recent years, the PRC government has adopted a number of initiatives to control the growth of China's residential property sector and to promote the development of more affordable housing. See "Regulations" in this offering circular. Additionally, the PRC central and local governments have implemented various measures to regulate the means by which property developers obtain land for property development. These policy initiatives and other measures adopted by the PRC government from time to time may limit our ability to acquire suitable land for our development or increase land acquisition cost significantly, which may have a material adverse effect on our business, financial condition and results of operations.

**Our unaudited condensed consolidated financial information as of and for the six months ended June 30, 2015 included in this offering memorandum has not been audited by our auditor. You should not place undue reliance on such unaudited financial information**

Our unaudited condensed consolidated financial information as of and for the six months ended June 30, 2015 included in this offering memorandum (together with certain unaudited condensed consolidated financial information for the six months ended June 30, 2014) is derived from our interim report that was released on September 4, 2015, and has not been audited by our independent auditor, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong. Such unaudited financial information included in this offering memorandum is preliminary and subject to potential adjustments. Necessary adjustments to such unaudited condensed consolidated financial information may be identified during our audit work for the whole year, and such adjustments could result in significant differences from this preliminary unaudited condensed consolidated financial information. You must exercise caution when using the unaudited financial information presented in this offering memorandum to evaluate our financial condition and results of operations. You should not rely on such unaudited condensed consolidated financial information to provide the same quality of information that audited financial information would provide.

**We guarantee mortgage loans of our customers and may become liable to mortgage banks if customers default on their mortgage loans**

As we pre-sell properties before their actual completion of construction, in accordance with industry practice, domestic banks require us to guarantee our customers' mortgage loans until the issuance of the relevant property ownership certificates. As a result, such guarantees generally last between six months to one year before we deliver possession of the relevant properties to the purchasers, at which time such guarantees are released. If a purchaser defaults on a mortgage loan, we may have to repurchase the underlying property by paying off the mortgage. If we fail to do so, the mortgagee bank may foreclose on the underlying property and recover any remaining amount outstanding from us as the guarantor of the mortgage loan. In line with industry practice, we do not conduct any independent credit checks on our customers but rely on the credit evaluation conducted by the mortgagee banks.

As of December 31, 2012, 2013, 2014 and June 30, 2015, our outstanding guarantees in respect of our customers' mortgage loans amounted to RMB3,723.1 million, RMB4,711.0 million, RMB6,463.0 million and RMB7,116.0 million, respectively. Should any material defaults occur and we are required to honor our guarantees, our business, results of operations and financial position may be materially adversely affected.

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

The fiscal and other measures adopted by the PRC government from time to time may limit our flexibility and ability to use bank loans to finance our property developments and therefore may require us to maintain a relatively high level of internally-sourced cash. In November 2009, the PRC government raised the minimum down payment 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 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 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.

### **Our profitability and results of operations are impacted by the success of our business model**

We focus primarily on the development of large-scale, integrated retail and residential complexes in second or third-tier cities in China with growth potential in accordance with urban planning by the local governments. Due to the nature of our business model, we are often one of the first property developers to enter into such markets. In particular, the success of our business model is dependent on, and could be directly affected by, the accuracy of our prediction of the local demand and economic growth of the cities where we have, or will have, projects. Our success is also dependent on our managerial and operational resources as well as our knowledge of the spending habits of local consumers and their acceptance of large-scale, integrated retail and residential complexes. We cannot assure you that our business model will be successful in each of the cities that we enter. In the event that we fail to establish or expand our business model as much as anticipated, our business, reputation, results of operations and financial position may be materially adversely affected.

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

We have, and expect to have in the future, interests in joint venture entities in connection with our property development plans as part of our business model. In certain circumstances, our existing joint venture entities have relied on our financial support, and we expect they will continue to do so. In addition, in accordance with PRC law, certain matters relating to joint ventures require the consent of all parties to the joint venture. Our joint ventures may involve risks associated with the possibility that our joint venture partners may:

- have economic or business interests or goals inconsistent with ours;
- take actions contrary to our instructions, requests or our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant joint venture agreements;
- have financial difficulties; or
- have disputes with us as to the scope of their responsibilities and obligations.

We cannot assure you that we will not encounter problems with respect to our joint venture partners which may adversely affect our business, reputation, results of operations, financial position and prospects.

### **The illiquidity of property investments and the lack of alternative uses of retail and hotel properties could significantly limit our ability to respond to adverse changes in the performance of our properties**

Because property investments in general are relatively illiquid, our ability to promptly sell one or more of our investment properties in response to changing economic, financial and investment conditions is limited. The property market is affected by various factors, such as general economic conditions, availability of financing, interest rates, supply and demand, many of which 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 complete the sale of a property. In addition, if we sell an investment property during the term of that property's management agreement or tenancy agreement, we may have to pay termination fees to our hotel management partners or our anchor retail tenants.

In addition, retail and hotels properties may not be readily converted to alternative uses if they became unprofitable due to competition, age, decreased demand or other factors. The conversion of retail and hotel properties to alternative uses generally requires substantial capital expenditures. We cannot assure you that we will have sufficient funds to carry out the conversion. These factors and any others that would impede our ability to respond to adverse changes in the performance of our hotels and retail properties could affect our ability to compete against our competitors and results of operations.

**We cannot assure you that we will be able to successfully expand our business into other cities in China**

We have historically focused on developing retail and residential properties in Fujian Province and we have expanded into selected emerging cities in China such as Bengbu and Fuyang in Anhui Province, Xinxiang in Henan Province, Changzhou, Suqian, Yancheng and Yangzhou in Jiangsu Province, Hangzhou in Zhejiang Province, Jimo, Licang, Dongying, Laishan and Yantai in Shandong Province, Tianjin Municipality, Shanghai Municipality and Chongqing Municipality with good growth potential. Expansion may place substantial strain on our managerial, operational and financial resources. In addition, we have limited knowledge of the local conditions of these new property markets and less experience in property development in cities or regions where we did not previously have property developments. Furthermore, we may not have the same level of familiarity with contractors, business practices, regulations, customer preferences, behavior and spending patterns, which may put us in a less competitive position as compared to the local and more experienced national property developers. Any failure to leverage our experience or failure to understand the property market in any other PRC city which we target for expansion may have a material adverse affect on our business, reputation, results of operations and financial position.

**We may suffer certain losses not covered by insurance**

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

**We may not be able to complete or deliver our development projects on time or at all**

Property development projects require substantial capital expenditures prior to and during the construction period, and construction of our property projects typically take at least six months before they generate positive cash flow through pre-sales or sales. The progress and cost of a development project can be adversely affected by many factors, including, among other things:

- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- relocation of existing residents and/or demolition of existing buildings;
- shortages of materials, equipment, contractors and skilled labor;
- labor disputes;
- construction accidents;
- natural catastrophes;
- adverse weather conditions;



- changes in government policies; and
- economic downturn and decrease in consumer sentiment in general.

Construction delays or the failure to complete the construction of a project according to its planned specifications, schedule or budget as a result of the above factors may affect our results of operations and financial position and may also adversely affect our reputation in the industry. We cannot assure you that we will not experience any significant delays in the completion or delivery of our projects, or that we will not be subject to any liabilities for any such delays. Liabilities arising from any delays in the completion or delivery of our projects could have a material adverse effect on our business, results of operations and financial position.

**The Hoi family is able to exercise substantial influence over our corporate policies and direct the outcome of corporate actions**

As of June 30, 2015, approximately 64.0% of our outstanding shares were beneficially owned by the Hoi family. Subject to compliance with applicable laws, by maintaining such ownership, the Hoi family is able to exercise substantial influence over our corporate policies, appoint our directors and officers and vote on corporate actions requiring shareholders' approval. In addition, our chairman and two of our executive directors are members of the Hoi family and are able to exercise substantial control over our business. In particular, the strategic goals and interests of the Hoi family may not be aligned with our strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. The interests of our controlling shareholders may differ from those of the holders of the Notes.

**We may be affected by the performance of third party contractors and prices of construction materials**

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

**Our operations depend on our ability to obtain an adequate supply of raw materials at acceptable prices and quality and in a timely manner.**

We depend on our suppliers to provide us with sufficient quantities of raw materials such as steel, cement, sand, ballast and timber at acceptable prices and in a timely manner. We generally do not maintain long-term contracts with our suppliers. Rather, we typically enter into contracts with our suppliers on a project by project basis. These contracts usually last, at most, only as long as the life of the individual project and hence the terms of these contracts can range from one year to five years. Raw materials, such as steel, have been subject to substantial price volatility and, from time to time, shortages of supply in the PRC. During times of short supply, we may have to pay significantly higher prices to obtain sufficient raw materials. We have not entered into any raw materials hedging contracts. We also need raw materials of acceptable quality. Raw materials of lesser quality may negatively affect the quality of our projects. Any failure to obtain adequate raw materials, or failure to do so on commercially acceptable terms and in a timely manner, could interfere with our operations and adversely affect the results of our operations.

**The PRC government may impose fines or other penalties on us if we fail to comply with the terms of the land grant contracts**

Under PRC laws and regulations, if we fail to develop a property project according to the terms of the land grant contract, including those relating to the payment of land premium, demolition and resettlement costs and other fees, scope of usage of the land and the time for commencement and completion of the property development, the PRC government may issue a warning, impose fines or other penalties. Specifically, under current PRC laws and regulations, if we fail to pay any outstanding land premium by the stipulated deadline, we may be subject to a late payment fine calculated on a per-day basis or other penalties. We cannot assure you that we will not have any overdue land premium in the future in relation to any new parcels of land we purchase, or that we will be able to enter into supplemental agreements with the local government authorities to postpone the payment dates for overdue land premium on terms acceptable to us, or at all. Under PRC laws and regulations, if we fail to reach a supplemental agreement to extend the payment dates for the overdue land premium, we may be required to pay a late payment fine or be subject to other penalties.

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 resources bureau may serve a warning notice on us and impose a land idle fee on the land of up to 20% of the land premium. If we fail to commence development for more than two years, the land is subject to reclamation by the PRC government unless the delay in development is caused by government actions or force majeure. Moreover, notwithstanding that the commencement of the land development is in line with the land grant contract, if the developed GFA on the land is less than one-third of the total GFA of the project or if the total capital expenditure is less than one-fourth of the total investment of the project and the development of the land has been suspended for over one year without government approval, the land will be treated as idle land. There have been instances where we did not commence construction of our properties on time as required by relevant land grant contracts. We cannot assure you that there will be no significant delays in the commencement of construction or the development of our properties in the future, or that our developments will not be subject to idle land penalties or be taken back by the government as a result of such delays. The imposition of substantial idle land penalties could have a material and adverse affect on our business, results of operations and financial condition. If any of our land is taken back by the government, we would not only lose the opportunity to develop the property, but we would also lose our prior investments in the development, including land premiums paid and costs incurred in connection with such land.

**We may not be able to obtain the requisite governmental approvals or land use rights certificates with respect to certain parcels of land in which we have acquired an interest**

The property industry is subject to extensive regulations whether in the PRC or in the overseas markets. For example, we must go through various PRC governmental approval and filing procedures and obtain the requisite approvals and licenses for our investment in a property development subsidiary and its property development and related business operations. Our property development subsidiaries must comply with a variety of legal and regulatory requirements, as well as the policies and procedures established by local authorities to implement such laws and regulations. Each approval is dependent on the satisfaction of a set of conditions. We cannot assure you that we will not encounter significant problems in satisfying the conditions to the approvals necessary for our business operations or property development. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. There have been instances where we did not obtain approvals or permits on time. Failure to obtain, or material delays in obtaining the requisite governmental approvals for any of our projects could give rise to potential liabilities and substantially disrupt the development and sale of our developments, which would result in a material adverse effect on our business, results of operations and financial condition.

We may not always be able to obtain land use rights certificates with respect to certain parcels of land. We have entered into various contractual arrangements with a view to facilitating potential acquisitions of land use rights for certain parcels of land. None of these contractual arrangements are land grant contracts with the PRC government or confirmation by the PRC government of the sale of state-owned land use rights. In addition, we are in the process of applying for land use rights certificates which are to be granted by the government authorities directly for certain other parcels of land. We cannot assure you that the relevant PRC government authorities will grant us the appropriate land use rights or issue the relevant land use rights certificates in respect of these parcels of land or in respect of other land we may contract to acquire in the future, in a timely manner, or at all. Nor can we assure you that our contractual

arrangements will eventually result in our acquisition of any land use rights. As these contractual arrangements are subject to various government approvals that involve relatively complex procedures, it is not uncommon to take years to complete the acquisition of the underlying land, if at all. If we fail to obtain, or experience material delay in obtaining, the land use rights certificates with respect to any parcels of land we have contracted or may contract to acquire in the future, in a timely manner, or at all, our business, results of operations and financial condition may be materially and adversely affected.

**We may bear demolition and resettlement costs associated with our property developments and such costs may increase**

Currently, we do not have any land reserves 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 land primary development provided that suitable opportunities exist. In such circumstance, it is likely that we will be required to compensate owners and residents of demolished buildings for their relocation and resettlement in accordance with relevant PRC laws and regulations. The compensation we will have to pay is calculated in accordance with formulae published by the relevant local authorities. These formulae take into account the location, type of building subject to demolition, local income level and many other factors. We cannot assure you, however, that these local authorities will not change or adjust their formulae from time to time without sufficient advance notice. If they do so, the land costs may be subject to substantial increases, which can adversely affect our cash flow, results of operations and financial position.

**We rely principally on dividends paid by our subsidiaries to fund our cash and financing requirements, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business**

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we incur and to pay any dividend we declare. If any of our subsidiaries incurs debt in its own name in the future, the instruments governing the debt may restrict dividends or other distributions on its equity interest to us. Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC entities on a combined basis only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC entities are required to set aside a certain percentage of their after-tax profit based on PRC accounting standards each year for their reserve fund in accordance with the requirements of relevant laws and provisions in their respective articles of associations. As a result, our PRC entities combined may be restricted in their ability to transfer any portion of their net income to us whether in the form of dividends, loans or advances. Any limitation on the ability of our subsidiaries to pay dividends to us could materially adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, service our debts or otherwise fund and conduct our business.

**We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies**

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises 《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》, or SAT Circular 698, issued by State Administration of Taxation on December 10, 2009 with retroactive effect from January 1, 2008, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, and such overseas holding company is located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor must report such indirect equity transfer to the competent PRC tax authorities with jurisdiction over the PRC resident enterprise.

There exists uncertainty as to the application of SAT Circular 698. For example, while the term “indirect transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant PRC authorities have not yet promulgated any formal announcements or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, or how to report such an indirect transfer to the competent PRC tax authorities. Neither has there been any formal governmental announcement on how to determine the existence of such an arrangement to evade PRC taxes. As a result, we may become at risk of being taxed under SAT Circular 698 due to any future transfer of equity interests. We may be required to allocate significant resources to comply with SAT Circular 698

or to establish that we should not be taxed under SAT Circular 698, which may have a material adverse effect on our financial condition and results of operations.

**Our cashflow from operation may decrease if we hold a greater portion of our developed properties for investment and, as a result, sell fewer properties**

We intend to retain an increasing portion of our retail properties for recurring rental income and potential for capital appreciation and to sell our residential properties for cash flow. Our cash flow from operations may decrease if we hold a greater portion of our developed properties for investment and, as a result, sell fewer properties.

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

In March 2007, the National People's Congress of the PRC and its Standing Committee (the "NPC" or the "National People's Congress") enacted the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "New Tax Law"), which took effect on January 1, 2008. The New Tax Law imposes a unified income tax rate of 25% on all domestic and foreign-invested enterprises unless they qualify under certain limited exceptions. According to the New Tax Law, enterprises that were previously subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after January 1, 2008. For the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, we paid enterprise income tax of RMB258.6 million, RMB243.4 million, RMB408.2 million and RMB228.3 million, respectively.

We are a Cayman Islands holding company that is financially dependent on distributions from our subsidiaries and substantially all of our business operations are conducted through our PRC subsidiaries. Prior to December 31, 2007, dividend payments to foreign investors made by foreign-invested enterprises, such as dividends paid to us by our PRC subsidiaries, were exempt from PRC withholding tax. The New Tax Law and the Regulations for Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (together with the New Tax Law, the "New Tax Laws"), effective January 1, 2008, provide that any dividend payment to foreign investors is subject to a withholding tax at a rate of 10%. Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, a company incorporated in Hong Kong may be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% interest in that subsidiary, although there is uncertainty under a recent circular regarding whether intermediate Hong Kong holding companies will remain eligible for benefits under this arrangement. You should also read the risk factor entitled "— We rely principally on dividends paid by our subsidiaries to fund our cash and financing requirements, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business" below. If we are treated as such a PRC resident enterprise under PRC tax laws, we could face adverse tax consequences.

**A deterioration in our brand image could adversely affect our business**

We rely to a significant extent on our brand name and image as well as the brand name and image of our corporate partners, including our anchor tenants, to attract potential customers to our commercial complexes. Any negative incident or negative publicity concerning us or our properties or any of our anchor tenants at our commercial complexes could adversely affect our reputation and business prospects. Brand value is based largely on consumer perceptions with a variety of subjective qualities and can be damaged even by isolated business incidents that degrade consumer trust. Consumer demand for our products and our brand value could diminish significantly if we fail to preserve the quality of our products, or fail to deliver a consistently positive consumer experience in each of our commercial complexes, or if we are perceived to act in an unethical or socially irresponsible manner. As we are less well known in certain regions in China where we do not have property projects, any negative publicity and resulting decrease in brand value, and/or failure to establish our brand in these regions could have a material adverse effect on our business, results of operations and financial position.

**We have limited experience in the high-quality hotel development business, which may adversely affect our results in that segment**

As of June 30, 2015, we owned six hotels in Suzhou City, Qingdao City, Tai'an City, Yantai City and Yancheng City. Five of our owned hotels are operated by an affiliate of Starwood Hotels & Resorts

Worldwide, Inc. and one of our owned hotels is operated by us. We have entered into operating agreements with hotel operator to manage and operate the five hotels. In addition, we operate (but do not own) a third-party hotel in Shandong Province. We may face considerable reputational and financial risks if the hotels are mismanaged or do not meet the expectations of hotel visitors. In addition, we cannot assure you that there will be sufficient demand for additional high-quality hotel facilities in these locations. As we will rely on hotel management companies to manage our hotels, we may not be in a position to identify or resolve potential issues that may arise in relation to the hotels. If we fail in our efforts in the high-quality hotel development business, it may have a material adverse effect on our business, results of operations and financial position.

**Our success depends on the continued services of our senior management team and other key personnel**

Our success depends on the continued services provided by our executive directors and members of our senior management team. Competition for such talented employees is intense in the PRC property development sector. We are very dependent on our chairman, Hoi Kin Hong and our senior management members, including Hoi Wa Fong, Shih Sze Ni, Xiao Qing Ping and Zhang Hong Feng. They have an average of 11 years of experience in the PRC property industry, with in-depth knowledge of various aspects of property development. If any core management team member leaves and we fail to find a suitable substitute, our business will be adversely impacted. Moreover, along with our steady growth and expansion into other regional markets in China, 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 future growth will be materially adversely affected.

**Property owners may terminate our engagement as the provider of property management services which could materially adversely affect our business, results of operations and financial position**

We provide after-sales property management services to the owners of our residential and retail properties through our wholly owned property management subsidiaries, Hualong Property and Hualong Commercial and their respective subsidiaries. We believe that property management is an important part of our business and critical to the successful marketing and promotion of our property developments. Under PRC laws and regulations, the home owners of a residential community of certain scale have the right to change the property management service provider upon the consent of a certain percentage of home owners. If home owners of the projects that we have developed choose to terminate our property management services, our reputation, business, results of operation and financial position if could be materially and adversely affected.

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

We may be involved in disputes with various parties involved in the development and the sale of our properties, including contractors, suppliers, construction workers, tenants, original residents, residents of surrounding areas, partners and purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to our reputation, substantial costs and diversion of resources and management's attention. As most of our projects are comprised of multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the projects are perceived to be inconsistent with our representations and warranties made to such earlier purchasers. In addition, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that may result in liabilities and cause delays to our property developments. We may also be involved in disputes or legal proceedings in relation to delays in the completion and delivery of our projects. Any of the above could have a material adverse effect on our business, results of operations and financial position. During the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, we were involved in certain legal or other disputes in the ordinary course of our business, including claims relating to our guarantees for mortgage loans provided to purchasers of our properties and contract disputes with purchasers and tenants of our properties.

**The total GFA of some of our property developments may have exceeded the original authorized area and the excess GFA is subject to governmental approval and payment of additional land premium**

When the PRC government grants land use rights for a piece of land, it will specify in the land grant contract the permitted use of the land and the total GFA that the developer may develop on the land. The

actual GFA constructed, however, may exceed the total GFA authorized in the land grant contract due to factors such as subsequent planning and design adjustments. The amount of GFA in excess of the authorized amount is subject to approval when the relevant government authorities inspect the properties after their completion and the developer may be required to pay additional land premium in respect of such excess GFA. If we fail to obtain the required certificate of completion due to any such excess, we will not be allowed to deliver the relevant properties or to recognize the revenue from the relevant pre-sold properties and may also be subject to liabilities under the sale and purchase agreements. We cannot assure you that the total constructed GFA of our existing projects under development or any future property developments will not exceed the relevant authorized GFA upon completion or that we will be able to pay the additional land premium and obtain the certificate of completion on a timely basis. Under relevant PRC laws and regulations, we may be required to pay additional amounts or take corrective actions with respect to any such non-compliant GFA before a certificate of completion can be issued in respect of the property development or before the general property ownership certificate can be issued. Any of the above could have a material adverse effect on our business, results of operations and financial position.

## **RISKS RELATING TO THE PROPERTY DEVELOPMENT INDUSTRY IN CHINA**

### **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. In recent years, risk of property over-supply is increasing in parts of China, where property investment, trading and speculation have become overly active. In the event of actual or perceived over-supply, 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 over-supply 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, crisis in the global financial markets and volatility of property price have negatively impacted, and may continue to negatively impact, our business and our ability to obtain necessary financing for our operations.”

### **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. See “Regulations” in this offering circular.

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. For a more detailed description of the PRC government’s measures to curtail the overheating of the PRC property market, see “Regulation — Measures on Stabilizing Housing Prices.”

### **Changes of PRC laws and regulations with respect to pre-sale may adversely affect our cash flow position and business performance**

We depend on cash flows from the pre-sale of properties as an important source of funding for our property development. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sale of the relevant properties and may only use pre-sale proceeds to finance their developments. Any such measures will materially adversely affect our cash flow position and force us to seek alternative sources of funding to finance our project developments.

In addition, we make certain undertakings in our sale and purchase agreements including obtaining the requisite completion acceptance inspection certificates for the properties and delivering completed

properties and property ownership certificates to the customers within the period stipulated in the sale and purchase agreements. These sale and purchase agreements and PRC laws and regulations provide for remedies for breach of such undertakings. For example, if we pre-sell a property project and we fail to complete that property project, we will be liable to the purchasers for their losses. Should we fail to complete a pre-sold property project on time, our purchasers may seek compensation for late delivery pursuant to either their contracts with us or relevant PRC laws and regulations. If our delay extends beyond a specified period, our purchasers may terminate the sale and purchase agreements and claim compensation. We cannot assure you that we will not experience significant delays in the completion and delivery of our projects which could have a material adverse effect on our business, results of operations and financial position.

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

In accordance with the provisions of the PRC Provisional Regulations on Land Appreciation Tax and their implementation rules, all persons including companies and individuals that receive income from the sale or transfer of state-owned land use rights, buildings and their attached facilities are subject to LAT at progressive rates ranging from 30% to 60% of the appreciated value of the land and improvements on such land, with certain exemptions available for the sale of ordinary residential properties if the appreciated value does not exceed 20% of the deductible expense items as defined in the relevant LAT regulations.

We have been prepaying LAT with reference to our pre-sale proceeds according to the relevant regulations of the local PRC government in jurisdictions where we have operations. Such LAT prepayments are recorded as a part of “prepaid taxes” on our consolidated balance sheets. We also made LAT provision of RMB355.7 million, RMB192.9 million, RMB90.5 million and RMB199.4 million during the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, respectively. Provisions for unsettled LAT liabilities are recorded as a part of “current income tax liabilities” on our consolidated balance sheets. However, we cannot assure you that our LAT provision will be sufficient to cover our past LAT liabilities. We also cannot assure you that the relevant tax authorities will agree with the basis on which we have calculated our LAT liabilities. Our financial position may be materially adversely affected if our LAT liabilities as finally calculated by the relevant tax authorities are substantially higher than our LAT provisions.

### **We may not be able to obtain qualification certificates**

As a precondition to engage in real property development in China, a company must obtain a qualification certificate and renew it on an annual basis. According to the PRC regulation on qualification of property developers issued in 2000, a newly established property developer must first apply for a provisional qualification certificate with a one-year validity, which can be extended for not more than two years under renewal. If, however, a newly established property developer fails to commence a property development project within the one-year period when the provisional qualification certificate is in effect, it will not be allowed to extend its provisional qualification certificate. Furthermore, established developers must also apply for renewal of their qualification certificates on an annual basis. Government regulations mandate that developers must fulfill all statutory requirements before they may obtain or renew their qualification certificates.

We develop all of our properties through project companies. These project companies must also hold valid qualification certificates to be able to conduct their businesses. As of the date of this offering circular, several of our PRC subsidiaries which are developing projects are either renewing or applying their qualification certificates. We cannot assure you that we and our project companies will continue to be able to extend or renew the qualification certificates. If we or our project companies do not possess valid qualification certificates, the government will refuse to issue pre-sale and other permits necessary for the conduct of our property development business. In addition, the government may impose a penalty on us and our project companies for failure to comply with the relevant licensing requirements. Any of the above could have a material adverse effect on our business, results of operations and financial position.

Pursuant to the Measures for the Administration of Qualifications of Property Service Enterprises (物業服務企業資質管理辦法), entities engaged in property management are required to obtain qualification certificates before they commence their business operations. Our wholly owned property management subsidiaries are primarily engaged to manage the residential and retail properties we developed. As of the

date of this offering circular, certain of our PRC subsidiaries which are providing property management service are either renewing or applying their qualification certificates. If any property management companies are unable to meet the relevant requirements and therefore unable to obtain or maintain the qualification certificates, our business and financial condition could be materially and adversely affected.

**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. See “Regulations” in this offering circular.

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.

**Intensified competition may adversely affect our business and our financial position**

In recent years, many competitors, including overseas property developers and operators and large-scale commercial facility operators have entered the property development markets in regions of China where we have operations. Many of them may have more financial or other resources than us and may be more sophisticated than we are in terms of engineering and technical skills. Competition among property developers may cause an increase in land premium and raw material costs, shortages in quality construction contractors, surplus in property supply leading to decreasing property prices, further delays in issuance of government approvals, and higher costs to attract or retain talented employees, which may in turn lead to lower profit margins. Moreover, property markets across China are influenced by various other factors, including changes in economic conditions, banking practices and consumer sentiments. If we fail to compete effectively, our business, results of operations and financial position will suffer.

**Failure to comply with our environmental and social responsibilities may adversely affect our operations and profitability**

We are subject to extensive and increasingly stringent environmental protection laws and regulations that impose fines for violation of such laws, regulations or decrees and provide for the shutdown by the central, provincial or municipal government of any construction sites not in compliance with governmental orders requiring the cessation or cure of certain activities causing environmental damage. In addition, there is a growing awareness of environmental issues and we may sometimes be expected to meet a standard which is higher than the requirement under the prevailing environmental laws and regulations.

We have not adopted additional environmental protection measures other than the measures generally taken in the ordinary course of business by companies in the industry. These measures include conducting environmental assessments on our property construction projects, hiring construction contractors who have good environmental protection and safety track record and requiring them to comply with the relevant laws and regulations on environmental protection and safety. We require them to use construction materials and construction methods that meet the requirements of such laws and regulations, undertake final clean up of the construction site, limit work hours for noisy construction activities and manage quality of residual soil. In addition, there is no assurance that more stringent requirements on environmental protection will not be imposed by the relevant PRC governmental authorities in the future. As of the date of this offering circular, several of our subsidiaries with projects under development are in the process of applying for approval for environmental assessments. If we fail to comply with existing or future environmental laws and regulations or fail to meet the expectations of the society, our reputation



may be damaged or we may even be required to pay penalties or fines or take remedial actions, any of which could have a material adverse effect on our business, results of operations and financial position.

## **RISKS RELATING TO CHINA**

### **Changes in PRC political and economic policies and conditions could adversely affect our business and prospects**

China has been, and will continue to be, our primary operating base and currently most of our assets are located in China. While the PRC government has been pursuing economic reforms to transform its economy from a planned economy to a market economy since 1978, a substantial part of the PRC economy is still being operated under various controls of the government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy, including the real estate industry, that the government believed to be overheating, such as raising benchmark interest rates of commercial banks, reducing currency supply and placing additional limitations on the ability of commercial banks to make loans by raising bank reserves against deposits. Our business prospects and results of operations may be materially adversely affected by changes in the PRC economic and social conditions and by changes in the rates or method of taxation and the imposition of additional restrictions on currency conversion.

### **Changes in foreign exchange and foreign investment regulations in China may adversely affect our ability to invest in China and the ability of our subsidiaries to pay dividends and service debts in foreign currencies**

Renminbi is not a freely convertible currency at present. We currently receive substantially all of our revenues in Renminbi. The PRC government regulates the conversion between Renminbi and foreign currencies. Changes in PRC laws and regulations on foreign exchange may result in uncertainties in our financing and operating plans in China. Over the years, the PRC government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service related foreign exchange transactions, payment of dividends and service of foreign debts. Under existing PRC foreign exchange regulations, payments of current-account items, including profit distributions, interest payments and operation-related expenditures, may be remitted in foreign currencies without prior approval from the relevant foreign exchange administration authorities by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take further measures in the future to restrict access to foreign currencies for current account transactions. Strict control applies to capital account transactions. Pre-approval or registration is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay for capital expenses. Changes in PRC foreign exchange policies may have a negative impact on the ability of our PRC subsidiaries to service its foreign currency denominated indebtedness and to distribute dividends to us in foreign currencies.

Subsequent to this offering, we have the choice of investing our net proceeds in the form of registered capital or a shareholder loan into our operating foreign-invested subsidiaries. Our choice of investment is affected, however, by the relevant SAFE regulations with respect to capital-account and current-account foreign exchange transactions in China. In addition, our transfer of funds to our foreign-invested subsidiaries in China is subject to approval by PRC government authorities in case of an increase in registered capital, or subject to registration with PRC government authorities in case of a shareholder loan. These limitations on the cash flow between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

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

In October 2005, SAFE issued the Notice Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (《關於境內居民通

過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) which became effective on November 1, 2005 (“Notice 75”). In July 2014, Notice 75 was abolished by SAFE and was superseded by the Notice Regarding Certain Administrative Measures on Offshore Investing and Financing and Round-trip Investment by PRC Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) which was issued by SAFE and became effective on July 4, 2014 (“Notice 37”). Notice 37 requires PRC residents, including both legal and natural persons, to register with the local SAFE branch before making capital contribution to any company outside of China (an “offshore SPV”) with onshore or offshore assets and equities interests legally owned by PRC residents. In addition, any PRC individual resident who is the shareholder of an offshore SPV is required to update its SAFE registration with the local SAFE branch with respect to that offshore SPV in connection with change of basic information of the offshore SPV such as its company name, business term, shareholding by PRC individual resident, merger, division and with respect to the PRC individual resident in case of any increase or decrease of capital in the offshore SPV, transfer of shares or swap of shares by the PRC individual resident. Failure to comply with the required SAFE registration and updating requirements described above may result in restrictions being imposed on the foreign exchange activities of the PRC subsidiaries of such offshore SPV, including increasing the registered capital of, payment of dividends and other distributions to, and receiving capital injections for the offshore SPV. Failure to comply with Notice 37 may also subject relevant PRC residents or the PRC subsidiaries of such offshore SPV to penalties under PRC foreign exchange administration regulations for evasion of applicable foreign exchange restrictions.

Our controlling shareholders have completed the registration of their offshore SPV in accordance with Notice 75 in February 2008. Changes in the status of these offshore SPV would require further registration of changes in accordance with Notice 75 and Notice 37. 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.

**PRC laws and regulations involve many uncertainties and the current legal environment in China could have a negative impact on our business and/or limit the legal protections available to you**

Our core business is conducted in China and our principal operating subsidiaries are located in China. As such, they are subject to PRC laws and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior cases have little precedent value in deciding subsequent cases in the civil law legal system. Additionally, such PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. When the PRC government started its economic reforms in 1978, it began to build a comprehensive system of laws and regulations to regulate business practices and overall economic orders of the country. China has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving foreign investment, corporate organization and governance, commercial transactions, taxation and trade. However, the promulgation of new laws, changes in existing laws and abrogation of local regulations by national laws may have a negative impact on our business and prospects. Additionally, given the involvement of different enforcement bodies of the relevant rules and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of PRC laws and regulations involve significant uncertainties under the current legal environment. All these uncertainties may limit the legal protections available to foreign investors including you.

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

Facts, forecasts and other statistics in this offering circular relating to China, the PRC economy, the PRC real estate industry and the selected PRC regional data have been derived from various official or other publications available in China and may not be consistent with other information compiled within or outside China. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Initial Purchasers or any of our or their affiliates or advisors (including legal advisors), or other participants in this offering and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics. We have, however, taken reasonable care in the reproduction and/or extraction of the official and other publications for the purpose

of disclosure in this offering circular. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts, forecasts and statistics in this offering circular may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to China, the PRC economy, the PRC real estate industry and the selected PRC regional data contained in this offering circular.

**The national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God or a recurrence of SARS or an outbreak of other epidemics, such as influenza A (H1N1) and avian flu (H5N1)**

Some regions in China, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought or susceptible to epidemics such as Severe Acute Respiratory Syndrome, or SARS. Past occurrences of epidemics, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as influenza A (H1N1) and avian flu (H5N1), 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 adversely affect our business, results of operations and financial position.

**RISKS RELATING TO THE NOTES**

**We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries that do not guarantee the Notes**

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries. Moreover, the Notes will not be guaranteed by the Non-Guarantor Subsidiaries, and under the terms of the Indenture, Subsidiary Guarantors may be able to release their Subsidiary Guarantees or replace their Subsidiary Guarantees with limited recourse JV Subsidiary Guarantees, in each case subject to certain conditions. Our primary assets are loans to and ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors and certain Non-Guarantor Subsidiaries and may be held by JV Subsidiary Guarantors. The Subsidiary Guarantors and the JV Subsidiary Guarantors do not, have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and JV Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries.

Creditors, including trade creditors of our PRC subsidiaries and other Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on the Non-Guarantor Subsidiaries' assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries (including obligations of our Non-Guarantor Subsidiaries under guarantees issued in connection with our business), and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of June 30, 2015, our PRC subsidiaries had borrowings in the amount of RMB15,467.0 million (US\$2,494.7 million) and they provided guarantees to banks for RMB7,116.0 million (US\$1,147.7 million) of mortgage facilities granted to purchasers of our properties. The Notes and the Indenture do not restrict the ability of our subsidiaries to issue certain categories of guarantee in the ordinary course of business. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantors would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantors securing the related obligations over claims of holders of the Notes.

Moreover, under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee, a JV Subsidiary Guarantee, following the sale or issuance to a third party of a 20% to 49.9% equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of

the last fiscal year end of the Company. As a result, the amount that may be recovered by the Security Agent pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

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

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the ability of the Subsidiary Guarantors or JV Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In practice, our PRC subsidiaries may pay dividends once or twice a year. In addition, starting from January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to a double tax treaty between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy our obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

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

**We may be unable to obtain and remit foreign exchange**

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on any of our shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

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

In light of land prices, sizes of projects and other factors, we may from time to time consider developing property developments jointly with other PRC property developers. As a result, we may need to make

investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries. Although the Indenture governing the Notes restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications.

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

MOFCOM and SAFE have issued notices indicate that SAFE would not process any foreign debt registration or settlement of foreign exchange for foreign debt for foreign-invested enterprises in the real estate sector that was approved by the local office of MOFCOM and registered with MOFCOM after June 1, 2007. As PRC foreign-invested enterprises cannot repay any loans or interest with respect to foreign debt under the PRC foreign exchange control system to persons outside the PRC without registration of the foreign debt with the SAFE, these regulations effectively prohibit our ability to fund our PRC foreign-invested subsidiaries in the form of loans. Therefore, the proceeds of the current offering that will be used for land acquisitions and developments in China can only be transferred to our PRC foreign-invested subsidiaries as equity investments or as loans subject to the restrictions on foreign-invested real estate enterprises as imposed by the foreign debt registration rules. Without having the flexibility to transfer funds to PRC foreign-invested subsidiaries as loans, we cannot assure you that the dividend payments from our PRC foreign-invested subsidiaries will be available on each interest payment date to pay the interest due and payable under the Notes, or on the maturity date to pay the principal of the outstanding Notes.

**We and holders of the Notes may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollars**

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. On June 19, 2010, PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase the PRC currency's exchange rate flexibility. These changes in currency policy resulted in Renminbi appreciating against the U.S. dollar and the H.K. dollar from 2005 to 2013. In August 2015, the Renminbi experienced a substantial devaluation as a result of adjustments made by the People's Bank of China to the reference Renminbi to U.S. dollar exchange rate. The Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in Renminbi exchange rates and lessen intervention in the foreign exchange market. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to such risks. Following the offering of the Notes, we may enter into foreign exchange or interest rate hedging arrangements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging arrangements may require us to pledge, charge or transfer cash and other collateral to secure our obligations under the arrangements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Initial Purchasers and their affiliates may enter into such hedging arrangements permitted under the Indentures, and these arrangements may be secured by pledges or charges of our cash and other assets as permitted under the Indentures. If we were unable to provide such collateral, it could constitute a default under such hedging arrangements.

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

Under the Corporate Income Tax Law of the PRC (the “PRC CIT Law”), if we are deemed a PRC resident enterprise, the interest payable on the Notes will be considered to be sourced within China. PRC income tax at the rate of 10% will be applicable to such interest payable by us to investors that are “non-resident enterprises” so long as such “non-resident enterprise” investors do not have an establishment or place of business in China or, if there is such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Similarly, any gain realized on the transfer of the Notes by such investors will be subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. It is uncertain whether we will be considered a PRC “resident enterprise,” so it is unclear whether the interest payable to our foreign investors, or the gain our foreign investors may realize from the transfer of our Notes, would be treated as income sourced within China and be subject to PRC tax. If we are required under the PRC CIT Law to withhold PRC income tax on our interest payable to our foreign shareholders who are “non-resident enterprises,” we will be required to pay such additional amounts as are necessary to ensure receipt by the holder of the full amount which the holder would have received but for such withholding. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flows. In addition, if you are required to pay PRC income tax on the transfer of our Notes, the value of your investment in our Notes may be materially and adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise,” holders of our Notes might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

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

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

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

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

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

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

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

If we are unable to comply with the restrictions and covenants in the Indenture governing the Notes, or our current or future debt obligations and other agreements, including the indenture governing the 2016 Notes, the indenture governing the 2017 Notes or the indenture governing the 2018 Notes, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture governing the Notes contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under our other debt agreements, including the Indentures governing the Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

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

The Indenture governing the Notes, the indenture governing the 2018 Notes, the indenture governing the 2016 Notes, the indenture governing the 2017 Notes, and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

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

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

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

The Notes are a new issue of securities for which there is currently no trading market. Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST. However, we cannot assure you that we will obtain or be able to maintain such a listing or that, if listed, a trading market will develop for the Notes on the SGX-ST. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue

such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See “Transfer Restrictions.” We cannot predict whether an active trading market for the Notes will develop or be sustained.

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

The Notes have been rated B- by Standard and Poor’s Ratings Services and B3 by Moody’s Investors Service, Inc.. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the ratings will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

### **Certain transactions that constitute “connected transactions” under the Listing Rules will not be subject to the “Limitation on Transactions with Shareholders and Affiliates” covenant**

Our shares are listed on the Hong Kong Stock Exchange and we are required to comply with the Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries, on the one hand, and a “connected person” of such listed company, on the other hand, is a “connected transaction” that, if the value of such transaction exceeds the applicable de minimis thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of “connected person” to a listed company includes, among others, any 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of “connected person” also captures “associates,” which include, among others, (a) any subsidiary of such “connected person,” (b) any holding company of such “connected person” and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

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

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

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

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

Facts and statistics in this offering circular relating to China’s economy and the real estate industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or our or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other



information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

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

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

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

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global notes representing the Notes will trade in book-entry form only, and Notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes for purposes of the Indenture. The common depository for Euroclear and Clearstream will be the sole registered holder of the global notes. Accordingly, you must rely on the procedures of Euroclear or Clearstream, and if you are not a participant in Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture. Upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued with respect to all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See “Description of the Notes — Book-Entry; Delivery and Form.”

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

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

**RISKS RELATING TO THE SUBSIDIARY GUARANTEES, THE JV SUBSIDIARY GUARANTEES AND THE COLLATERAL**

**Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees**

None of our current PRC subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. Moreover, the Notes will not be guaranteed by certain other Non-Guarantor Subsidiaries and under the terms of the Indenture, Subsidiary Guarantors may be able to release their Subsidiary Guarantees subject to certain conditions and become Non-Guarantor Subsidiaries. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries and such Non-Guarantor Subsidiaries. See “Description of the Notes — The Subsidiary Guarantees and JV Subsidiary Guarantees” for a list of the Non-Guarantor Subsidiaries. Moreover, the Collateral will not include the capital stock of our existing or future PRC subsidiaries and Non-Guarantor Subsidiaries.

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

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

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

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

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor’s insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor’s remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debt as it became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration.

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

If a court voided a Subsidiary Guarantee, subordinated such guarantee to other indebtedness of the Subsidiary Guarantor or JV Subsidiary Guarantor, or held the Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be) unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor or JV Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor or JV Subsidiary Guarantor, and would solely be creditors of us and any Subsidiary Guarantor

or JV Subsidiary Guarantors whose guarantee was not voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

### **The pledge or charge of certain Collateral may in some circumstances be voidable**

The pledge or charge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, the Cayman Islands and the British Virgin Islands at any time within six months of the perfection of the pledge or charge or, under some circumstances, within a longer period. Pledges or charges of issued Capital Stock of future Subsidiary Guarantors or where applicable, certain JV Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge or charge of certain Collateral may be voided based on the analysis set forth under “— The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees.”

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

### **The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes, the 2018 Notes, the 2016 Notes, the 2017 Notes and other Permitted Pari Passu Secured Indebtedness**

The Collateral will consist only of the issued Capital Stock of the initial Subsidiary Guarantors and our proportional interest in the initial JV Subsidiary Guarantor and may in the future include our proportional interest in certain JV Subsidiary Guarantors. The security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, the 2018 Notes, the 2016 Notes, the 2017 Notes and other Permitted Pari Passu Secured Indebtedness to repay other debt or to make investments in properties and assets that will not be pledged or charged as additional Collateral.

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

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

The Collateral will be shared on a *pari passu* basis by the holders of the Notes, the 2018 Notes, the 2016 Notes, the 2017 Notes and any other creditors with respect to Permitted Pari Passu Secured Indebtedness. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness. The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors' obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and the disposition of assets comprising the Collateral, subject to the terms of the Indenture.

**The Intercreditor Agreement may impact our ability and the ability of the Subsidiary Guarantors and JV Subsidiary Guarantors to pay amounts due under the Notes and the Subsidiary Guarantees and the Intercreditor Agreement may limit the rights of holders of the Notes to the Collateral**

Provided the Security Agent is indemnified and/or secured to its satisfaction, it may be required to take action to enforce the Collateral in accordance with the instructions of holders of the Notes, the 2018 Notes, the 2016 Notes, the 2017 Notes and creditors of other Permitted Pari Passu Secured Indebtedness given under and in accordance with the Intercreditor Agreement. Any enforcement action taken by the Security Agent will adversely affect our entitlement to receive distributions from the Collateral, which will, in turn, have an adverse impact on our ability to fulfill our payment obligations under the Notes. Further, the Subsidiary Guarantors' ability to pay under the Subsidiary Guarantees, will be adversely affected. The ability of holders of the Notes to enforce the Collateral is restricted under the Intercreditor Agreement, as only the Security Agent is permitted to take enforcement actions. If an Event of Default occurs under the 2018 Notes, the 2016 Notes or the 2017 Notes, the holders of the 2015 Notes, the 2018 Notes, the 2016 Notes, the 2017 Notes and creditors of other Permitted Pari Passu Secured Indebtedness must decide whether to take any enforcement action and thereafter, through their respective trustee or agent, subject to the satisfaction of the conditions under the Intercreditor Agreement, may instruct the Security Agent to take such enforcement action. By virtue of the instructions given to the Security Agent described above, actions may be taken in respect of the Collateral that may be adverse to holders of the Notes.

The Security Agent, acting in its capacity as such, will have such duties with respect to the Collateral pledged, charged, assigned or granted pursuant to the Intercreditor Agreement and the Security Documents as are set forth in the Intercreditor Agreement and as trustee and agent in respect the 2018 Notes, the 2016 Notes and the 2017 Notes. Under certain circumstances, the Security Agent may have obligations under the Security Documents or the Intercreditor Agreement and the underlying indentures that are in conflict with the interests of the holders of the Notes, the 2018 Notes, the 2016 Notes and the 2017 Notes. The Security Agent will not be under any obligation to exercise any rights or powers conferred under the Intercreditor Agreement or any of the Security Documents for the benefit of the holders of the Notes, the 2018 Notes, the 2016 Notes or the 2017 Notes, unless such holders have offered to the Security Agent indemnity and/or security satisfactory to the Security Agent against any loss, liability, cost or expense.

**The pledge or charge of certain Collateral may be released under certain circumstances**

In the event that a Subsidiary Guarantor is able to release its Subsidiary Guarantee by selling or issuing more than 20% of the issued Capital Stock of such Subsidiary Guarantor to a third party, because the consolidated assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 25% of our total assets, we are permitted to release the pledge or charge of the shares granted by and over such Subsidiary Guarantor.

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

## **USE OF PROCEEDS**

We estimate that the net proceeds from this offering, after deducting the underwriting discount and related expenses payable, will be approximately US\$195.1 million. We intend to use the net proceeds to refinance our existing indebtedness.

Pending application of the net proceeds of this offering, we intend to invest such net proceeds in “Temporary Cash Investments” as defined under “Description of the Notes.”

## EXCHANGE RATE INFORMATION

### PRC

The PBOC, sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which were set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

On May 18, 2007, the PBOC enlarged, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This range was subsequently increased to 1.0% on April 16, 2012 and further increased to 2.0% on March 17, 2014. This allows the Renminbi to fluctuate against the U.S. dollar by up to 1.0% above or below the central parity rate published by the PBOC. The PBOC has authorized the China Foreign Exchange Trading Center, effective from January 4, 2006, to announce the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day.

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

Period	Low	Average <sup>(1)</sup>	High	Period End
	(RMB per US\$1.00)			
2008. . . . .	6.7800	6.9193	7.2946	6.8225
2009. . . . .	6.8176	6.8295	6.8470	6.8259
2010. . . . .	6.6000	6.7603	6.8330	6.6000
2011. . . . .	6.2939	6.4475	6.6364	6.2939
2012. . . . .	6.2221	6.3093	6.3879	6.2301
2013. . . . .	6.0537	6.1412	6.2438	6.0537
2014. . . . .	6.0402	6.1704	6.2591	6.2046
2015				
January . . . . .	6.1870	6.2181	6.2535	6.2495
February . . . . .	6.2399	6.2518	6.2695	6.2695
March . . . . .	6.1955	6.2386	6.2741	6.1990
April. . . . .	6.1927	6.2010	6.2185	6.2018
May . . . . .	6.1958	6.2035	6.2086	6.1980
June . . . . .	6.1976	6.2052	6.2086	6.2000
July . . . . .	6.2008	6.2085	6.2097	6.2097
August . . . . .	6.2086	6.3383	6.4122	6.3760
September. . . . .	6.3544	6.3676	6.3836	6.3556
October. . . . .	6.3180	6.3505	6.3591	6.3180
November (through November 13, 2015). . . . .	6.3180	6.3414	6.3735	6.3735

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

## HONG KONG

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

The market exchange rate of the H.K. dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. In May 2005, the Hong Kong Monetary Authority broadened the trading band from the original rate of HK\$7.80 per US\$1.00 to a rate range of HK\$7.75 to HK\$7.85 per US\$1.00. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the H.K. dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the H.K. dollar will remain freely convertible into other currencies, including the U.S. dollar. However, we cannot assure you that the Hong Kong government will maintain the link within the rate range of HK\$7.75 to HK\$7.85 per US\$1.00, or at all.

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

Period	Low	Average <sup>(1)</sup>	High	Period End
	(HK\$ per US\$1.00)			
2008. ....	7.7497	7.7814	7.8159	7.7499
2009. ....	7.7495	7.7513	7.7618	7.7536
2010. ....	7.7501	7.7692	7.8040	7.7810
2011. ....	7.7663	7.7841	7.8087	7.7634
2012. ....	7.7439	7.7569	7.7699	7.7507
2013. ....	7.7503	7.7565	7.7654	7.7539
2014. ....	7.7495	7.7554	7.7669	7.7531
2015				
January . . . . .	7.7508	7.7531	7.7563	7.7529
February . . . . .	7.7517	7.7551	7.7584	7.7559
March . . . . .	7.7534	7.7584	7.7686	7.7540
April . . . . .	7.7495	7.7509	7.7525	7.7513
May . . . . .	7.7505	7.7527	7.7594	7.7535
June . . . . .	7.7513	7.7528	7.7567	7.7513
July . . . . .	7.7502	7.7514	7.7553	7.7514
August . . . . .	7.7496	7.7530	7.7627	7.7500
September . . . . .	7.7495	7.7501	7.7511	7.7499
October . . . . .	7.7495	7.7499	7.7503	7.7496
November (through November 13, 2015) . . . . .	7.7498	7.7506	7.7518	7.7509

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

## CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents, short-term borrowings and capitalization as of June 30, 2015, presented:

- on an actual basis; and
- on an as adjusted basis to reflect the net proceeds from the issuance of the Notes after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering.

Except as otherwise disclosed herein, there has been no material change in our capitalization since June 30, 2015.

	As of June 30, 2015			
	Actual		As adjusted	
	RMB	US\$ <sup>(5)</sup>	RMB	US\$ <sup>(5)</sup>
	(in thousands)			
<b>Cash and cash equivalents</b> . . . . .	4,349,926	701,601	5,559,726	896,730
<b>Short-term borrowings<sup>(1)</sup></b>				
Bank borrowings . . . . .	1,465,702	236,404	1,465,702	236,404
Other borrowings . . . . .	243,810	39,324	243,810	39,324
Current portion of long-term borrowings . . . . .	3,276,012	528,389	3,276,012	528,389
Total short-term borrowings . . . . .	<u>4,985,524</u>	<u>804,117</u>	<u>4,985,524</u>	<u>804,117</u>
<b>Long-term borrowings<sup>(2)</sup></b>				
2018 Notes . . . . .	1,560,519	251,697	1,560,519	251,697
2016 Notes . . . . .	800,838	129,167	800,838	129,167
2017 Notes . . . . .	1,519,433	245,070	1,519,433	245,070
Notes to be issued <sup>(3)</sup> . . . . .	—	—	1,209,800	195,129
Bank borrowings . . . . .	11,878,042	1,915,813	11,878,042	1,915,813
Other borrowings . . . . .	2,180,800	351,742	2,180,800	351,742
Less: amounts due within one year . . . . .	<u>(3,276,012)</u>	<u>(528,389)</u>	<u>(3,276,012)</u>	<u>(528,389)</u>
Total long-term borrowings . . . . .	<u>14,663,620</u>	<u>2,365,100</u>	<u>15,873,420</u>	<u>2,560,229</u>
<b>Capital and reserves</b>				
Equity				
Total equity . . . . .	<u>21,436,864</u>	<u>3,457,559</u>	<u>21,436,864</u>	<u>3,457,559</u>
Total capitalization <sup>(4)</sup> . . . . .	<u>36,100,484</u>	<u>5,822,659</u>	<u>37,310,284</u>	<u>6,017,788</u>



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*Notes:*

- (1) Short-term borrowings include the current portion of long-term borrowings.
- (2) Long-term borrowings exclude the current portion of long-term borrowings.
- (3) Estimated net proceeds after deducting the underwriting discounts and commissions and other estimated expenses in connection with this offering.
- (4) Total capitalization consists of total long-term borrowings and total equity.
- (5) Translation of Renminbi amounts to U.S. dollars was made at a rate of RMB6.20000 to US\$1.00 as at June 30, 2015.

## SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected financial data as of and for each of the fiscal years ended December 31, 2012, 2013 and 2014 is derived from our audited consolidated financial statements for those periods and as of the dates indicated. The summary financial data as of June 30, 2015 and for the six-month period ended June 30, 2015 is derived from our unaudited condensed consolidated interim financial information included elsewhere in this offering circular. The unaudited condensed consolidated interim financial information as of and for the six-month period ended June 30, 2014 and 2015 contains all adjustments that our management believes are necessary for the fair presentation of such information. Results for interim periods are not indicative of results for the full year. Our financial statements for the years ended December 31, 2012, 2013 and 2014 have been prepared and presented in accordance with HKFRS and our financial information for the six months ended June 30, 2015 have been presented and presented in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”, which may differ in material respects from generally accepted accounting standards in other jurisdictions. The selected financial data below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the notes to those statements included elsewhere in this offering circular.

### Selected Consolidated Income Statement Information

	Year ended December 31,			Six months ended June 30,			
	2012	2013	2014	2014	2014	2015	2015
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
(in thousands, except per share data and percentages)							
<b>Revenue</b> . . . . .	5,871,763	7,256,938	9,662,995	1,558,548	4,422,701	4,728,402	762,645
Cost of sales . . . . .	<u>(3,540,058)</u>	<u>(5,201,756)</u>	<u>(6,880,023)</u>	<u>1,109,681</u>	<u>(3,130,748)</u>	<u>(3,202,764)</u>	<u>(516,575)</u>
<b>Gross profit</b> . . . . .	2,331,705	2,055,182	2,782,972	448,867	1,291,953	1,525,638	246,070
Fair value gains on investment properties — net . . . . .	1,743,684	530,672	599,325	96,665	214,256	701,316	113,115
Selling and marketing costs . . . . .	(208,258)	(240,509)	(395,666)	(63,817)	(151,340)	(209,604)	(33,807)
Administrative expenses . . . . .	(505,331)	(583,970)	(676,140)	(109,055)	(333,126)	(350,854)	(56,589)
Other gains/(losses) — net . . . . .	(56,440)	95,370	(124,963)	(20,155)	(29,357)	13,010	2,098
Exchange (losses)/gains — net . . . . .	<u>248</u>	<u>(22,543)</u>	<u>4,721</u>	<u>761</u>	<u>6,075</u>	<u>5,139</u>	<u>829</u>
<b>Operating profit</b> . . . . .	3,305,608	1,834,202	2,190,249	353,266	998,461	1,684,645	271,716
Finance income/(costs) — net . . . . .	(29,389)	121,023	(30,606)	(4,936)	(73,581)	2,587	417
Share of profit of investments accounted for using the equity method . . . . .	<u>134,079</u>	<u>108,365</u>	<u>(709)</u>	<u>(114)</u>	<u>52,375</u>	<u>41,799</u>	<u>6,742</u>
<b>Profit before income tax</b> . . . . .	3,410,298	2,063,590	2,158,934	348,216	977,255	1,729,031	278,875
Income tax expense . . . . .	<u>(1,197,312)</u>	<u>(663,414)</u>	<u>(651,340)</u>	<u>(105,055)</u>	<u>(260,823)</u>	<u>(585,537)</u>	<u>(94,441)</u>
<b>Profit for the year/period</b> . . . . .	<u><u>2,212,986</u></u>	<u><u>1,400,176</u></u>	<u><u>1,507,594</u></u>	<u><u>243,161</u></u>	<u><u>716,432</u></u>	<u><u>1,143,494</u></u>	<u><u>184,434</u></u>

	Year ended December 31,				Six months ended June 30,		
	2012	2013	2014	2014	2014	2015	2015
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
(in thousands, except per share data and percentages)							
<b>Profit attributable to:</b>							
Owners of the Company . . . . .	2,193,852	1,403,536	1,370,828	221,101	758,823	1,030,458	166,203
Holders of Perpetual Capital Instruments . . . . .	—	—	36,750	5,927	972	72,754	11,735
Non-controlling interests . . . . .	19,134	(3,360)	100,016	16,132	(43,363)	40,282	6,497
	<u>2,212,986</u>	<u>1,400,176</u>	<u>1,507,594</u>	<u>243,160</u>	<u>716,432</u>	<u>1,143,494</u>	<u>184,435</u>
<b>Dividends . . . . .</b>	<u>323,841</u>	<u>—</u>	<u>252,278</u>	<u>40,690</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>NON-GAAP FINANCIAL DATA</b>							
EBITDA <sup>(1)</sup> . . . . .	3,460,813	1,883,897	2,438,350	393,282	1,079,042	1,722,312	277,793
EBITDA margin <sup>(2)</sup> . . . . .	<u>59%</u>	<u>26%</u>	<u>25%</u>	<u>25%</u>	<u>24%</u>	<u>36%</u>	<u>36%</u>

*Notes:*

- (1) EBITDA for any period consists of profit before interest income, other gains/losses net, depreciation and amortization expenses, finance costs/income, share of profit/loss of investments accounted for using equity method and income tax expenses. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest or other non-operating expenses/income. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to service debt and pay taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the period under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) EBITDA margin is calculated by dividing EBITDA by revenues for the relevant period, expressed as a percentage.

## Selected Consolidated Balance Sheet Information

	As of December 31,				As of June 30,	
	2012	2013	2014	2014	2015	2015
	RMB (audited)	RMB (audited)	RMB (audited)	US\$ (unaudited)	RMB (unaudited)	US\$ (unaudited)
	(in thousands)					
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property and equipment . . . . .	1,578,966	1,694,201	1,898,666	306,236	2,019,850	325,782
Land use rights . . . . .	543,527	569,862	797,138	127,603	1,018,818	164,325
Investment properties . . . . .	18,147,844	19,590,330	24,381,596	3,932,515	26,400,985	4,258,223
Investments accounted for using the equity method . . . . .	1,012,423	1,148,972	1,548,554	249,767	1,411,904	227,726
Deferred income tax assets . . . . .	167,094	203,065	380,313	61,341	333,701	53,823
Derivative financial instruments . . . . .	—	11,406	—	—	—	—
Available-for-sale financial assets . . . . .	—	—	—	—	180,000	29,032
Loans . . . . .	270,000	—	—	—	—	—
	<u>21,719,854</u>	<u>23,217,836</u>	<u>29,006,267</u>	<u>4,678,430</u>	<u>31,365,258</u>	<u>5,058,913</u>
<b>Current assets</b>						
Properties under development . . . . .	10,789,478	11,371,010	13,668,618	2,204,616	14,555,957	2,347,735
Completed properties held for sale . . . . .	2,649,985	3,521,049	6,162,421	993,939	8,291,907	1,337,404
Trade and other receivables . . . . .	1,452,635	1,989,387	2,196,727	354,311	2,214,502	342,662
Prepayments . . . . .	1,371,281	3,304,061	852,374	137,480	679,061	109,526
Prepaid taxes . . . . .	195,964	241,216	300,334	48,441	379,534	61,215
Available-for-sale financial assets . . . . .	16,462	30,801	16,042	2,587	17,190	2,773
Financial assets at fair value through profit or loss . . . . .	1,750	14,600	1,500	242	—	—
Restricted cash . . . . .	557,979	378,508	603,687	97,369	647,959	104,510
Cash and cash equivalents . . . . .	1,452,217	4,434,449	4,345,757	700,929	4,349,926	701,601
	<u>18,487,751</u>	<u>25,285,081</u>	<u>28,147,460</u>	<u>4,539,913</u>	<u>31,136,036</u>	<u>5,021,941</u>
<b>Total assets . . . . .</b>	<b><u>40,207,605</u></b>	<b><u>48,502,917</u></b>	<b><u>57,153,727</u></b>	<b><u>9,218,343</u></b>	<b><u>62,501,294</u></b>	<b><u>10,080,853</u></b>
<b>EQUITY</b>						
<b>Equity attributable to owners of the Company</b>						
Share capital and premium . . . . .	3,035,471	3,035,471	2,979,696	480,596	2,979,696	480,596
Other reserves . . . . .	488,132	530,487	664,827	107,230	668,491	107,821
Retained earnings . . . . .	12,515,461	13,571,187	14,965,316	2,413,761	15,746,360	2,539,735
	<u>16,039,064</u>	<u>17,137,145</u>	<u>18,609,839</u>	<u>3,001,587</u>	<u>19,394,547</u>	<u>3,128,153</u>
<b>Perpetual capital instruments . . . . .</b>	<b>—</b>	<b>—</b>	<b>1,302,139</b>	<b>210,022</b>	<b>1,304,531</b>	<b>210,408</b>
<b>Non-controlling interests . . . . .</b>	<b>460,376</b>	<b>508,988</b>	<b>697,504</b>	<b>112,501</b>	<b>737,786</b>	<b>118,998</b>
<b>Total equity . . . . .</b>	<b><u>16,499,440</u></b>	<b><u>17,646,133</u></b>	<b><u>20,609,482</u></b>	<b><u>3,324,110</u></b>	<b><u>21,436,864</u></b>	<b><u>3,457,559</u></b>

	As of December 31,				As of June 30,	
	2012	2013	2014	2014	2015	2015
	RMB (audited)	RMB (audited)	RMB (audited)	US\$ (unaudited)	RMB (unaudited)	US\$ (unaudited)
(in thousands)						
<b>LIABILITIES</b>						
<b>Non-current liabilities</b>						
Borrowings . . . . .	7,731,776	11,854,736	14,294,043	2,305,491	14,663,620	2,365,100
Deferred income tax liabilities . . . . .	3,009,963	3,187,587	3,314,613	534,615	3,489,040	562,748
Derivative financial instruments . . . . .	—	—	81,178	13,093	53,025	8,552
	<u>10,741,739</u>	<u>15,042,323</u>	<u>17,689,834</u>	<u>2,853,199</u>	<u>18,205,685</u>	<u>2,936,401</u>
<b>Current liabilities</b>						
Trade and other payables . . . . .	3,910,015	4,869,464	7,727,082	1,172,916	10,522,744	1,697,217
Advances from customers . . . . .	3,633,826	4,186,307	4,641,997	748,709	5,153,353	831,186
Current income tax liabilities . . . . .	2,100,335	2,183,267	2,194,391	353,934	2,178,184	351,320
Borrowings . . . . .	3,322,250	4,575,423	4,290,941	692,087	4,985,524	804,117
Derivative financial instruments . . . . .	—	—	—	—	18,940	3,055
	<u>12,966,426</u>	<u>15,814,461</u>	<u>18,854,411</u>	<u>3,041,034</u>	<u>22,858,745</u>	<u>3,686,894</u>
<b>Total liabilities . . . . .</b>	<u>23,708,165</u>	<u>30,856,784</u>	<u>36,544,245</u>	<u>5,894,233</u>	<u>41,064,430</u>	<u>6,623,295</u>
<b>Total equity and liabilities . . . . .</b>	<u>40,207,605</u>	<u>48,502,917</u>	<u>57,153,727</u>	<u>9,218,343</u>	<u>62,501,294</u>	<u>10,080,853</u>

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

*The following discussion should be read in conjunction with “Selected Consolidated Financial and Other Data”, our consolidated financial statements and our unaudited condensed consolidation interim financial information, including the notes thereto, included elsewhere in this offering circular. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated.*

*Our consolidated financial statements were prepared in accordance with HKFRS and our unaudited condensed consolidation interim financial information for the six months ended June 30, 2015 have been prepared and presented in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”, which may differ materially from generally accepted accounting principles in other jurisdictions. In this section of the offering circular, references to “2012”, “2013” and “2014” refer to our fiscal years ended December 31, 2012, 2013 and 2014 respectively.*

### OVERVIEW

We are a leading property developer in China specializing in the development and operation of high-quality, large-scale, integrated retail and residential complexes. Our existing property projects are generally located in prime positions close to the city center of fast-growing cities in Fujian Province, Jiangsu Province, Shandong Province, Henan Province, Anhui Province and Zhejiang Province as well as Tianjin Municipality, Shanghai Municipality and Chongqing Municipality. We intend to focus our expansion in property development operations in cities in China that we believe have high growth potential. Our shares have been listed on the main board of the Hong Kong Stock Exchange since October 2009 and our market capitalization was approximately HK\$6.2 billion as of November 18, 2015.

Our business model sets us apart from many property developers in China. We focus more on owning and operating retail properties, and our strategy is to sell all the residential properties and a portion of the retail properties that we develop to generate cash flow for our business operations. We retain ownership of a significant portion of our retail properties for long-term investment to generate recurring rental income and capture potential capital appreciation. We believe our business model allows us to diversify our revenue sources, generate steady recurring revenue and reduce our reliance on a particular sector of the real estate market. Our policy going forward will generally continue to follow our current practice with respect to properties for sale and properties to be retained for investment.

The total GFA of properties we delivered in 2012, 2013, 2014 and the first six months of 2015 was 863,082 square meters, 869,904 square meters, 752,359 square meters and 568,583 square meters, respectively. We intend to retain an increasing portion of our retail properties for recurring rental income and for capital appreciation and to sell our residential properties for cash flow. Our cash flow from operations may decrease if we hold a greater portion of our developed properties for investment and, as a result, sell fewer properties. For 2012, 2013, 2014 and the six months ended June 30, 2015, our revenue from sales of properties was RMB4,975.7 million, RMB6,243.9 million, RMB8,265.2 million and RMB4,073.4 million, respectively, representing approximately 84.7%, 86.0%, 85.5% and 86.1%, respectively, of our total revenue. As of December 31, 2012, 2013, 2014 and June 30, 2015, we had leased out a total GFA of 1,166,873 square meters, 1,371,084 square meters, 1,572,837 square meters and 1,716,107 square meters, respectively. For 2012, 2013, 2014 and the six months ended June 30, 2015, our rental income was RMB320.8 million, RMB349.2 million, RMB444.8 million and RMB259.9 million, respectively, representing approximately 5.5%, 4.8%, 4.6% and 5.5%, respectively, of our total revenue.

Our revenue in 2012, 2013, 2014 and the six months ended June 30, 2015 was RMB5,871.8 million, RMB7,256.9 million, RMB9,663.0 million and RMB4,728.4 million, respectively, and our EBITDA was RMB3,460.8 million, RMB1,883.9 million, RMB2,438.4 million and RMB1,722.3 million, respectively.

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

Our results of operations tend to fluctuate from period to period. During 2012, 2013, 2014 and the six months ended June 30, 2015, our revenue was RMB5,871.8 million, RMB7,256.9 million, RMB9,663.0 million and RMB4,728.4 million, respectively, and the profit attributable to equity holders of our Company for the same periods was RMB2,193.9 million, RMB1,403.5 million, RMB1,370.8 million and RMB1,030.5 million, respectively. During these periods, our revenue was primarily generated from the sales of the properties we developed. The number of properties that we can develop or complete during any particular period is limited due to substantial capital requirements for land acquisition, planning, design and construction, limited land supplies and lengthy development periods before positive cash flows may be generated. We do not recognize revenue until we complete and deliver our properties. The development process is also subject to weather conditions and the coordination of various processes, such as availability of construction materials and the approval process of various government authorities. In addition, we focus on developing comparatively large-scale integrated retail and residential complexes and the selling prices of properties in such large scale developments tend to increase as the overall development approaches completion and as construction and completion risk decreases for the purchasers. Seasonal variations have also caused fluctuations in our interim revenues and profits, including quarterly and semi-annual results. As a result, our results of operations fluctuate and our interim results do not proportionally reflect our annual results.

Our business, financial condition and results of operation are also affected by a number of other factors, including the following:

### **Economic Growth, Speed of Urbanization and Demand for Properties in China**

The economic growth, urbanization and rising standard of living in China have been the main driving forces behind the increasing market demand for properties. Currently, the real estate industry is regarded by the PRC government as one of China's pillar industries. It is significantly dependent, however, on the overall economic growth and the resultant consumer demand for properties. Because we target residential property buyers and retail property tenants and buyers primarily in second and third-tier emerging cities in China, we believe that the rate of urbanization and the overall economic growth in China are especially important to our operations. In addition, urbanization and overall economic growth in China will also impact the consumer demand for our retail rental properties and our occupancy rate, which will in turn affect our rental income and results of operations. The slowdown of the worldwide economy from 2008 to early 2009, including that of China, resulted in the decline in real estate market sentiment, which in turn had a negative impact on property demand, average selling prices and rental prices in many areas of China since 2008. Although China and many other foreign economies have exhibited signs of recovery, the outlook for the world economy and financial markets remains uncertain. In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these European nations to continue to service their sovereign debt obligations. On August 6, 2011, S&P downgraded the rating for long-term United States debt to "AA+" from "AAA" for the first time in 70 years. The downgrade of United States debt by S&P, coupled with the economic turmoil in Europe and other parts of the world could lead to another global economic downturn and financial market crisis. It is difficult to determine the impact of any global economic slowdown and financial crisis on the property industry in China. If the global economic slowdown and financial market crisis continue or become more severe than currently estimated, our business prospects, revenues, cash flows and financial condition could be materially and adversely affected.

### **Regulatory Measures in the Real Estate Industry in China**

In response to concerns over the increase in property investment and the overheating of the property sector in the PRC, the PRC government from time to time introduces macroeconomic control policies to encourage or restrict development in the private property sector by regulating land grants, land utilization, pre-sales of properties, bank financing and taxation. Measures taken by the PRC government to control money supply and credit availability also have a direct impact on our business and results of operations. The PRC government may introduce initiatives which may affect our and our customers' access to capital and the means by which we may finance property development. See "Risk Factors — Risks Relating to the Property Development Industry in China — 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."

## **Ability to Acquire Suitable Land at Relatively Low Costs**

Our continuing growth will depend in large part on our ability to acquire quality land at prices that can yield reasonable returns. The fluctuation of land acquisition costs during 2012, 2013 and 2014 mainly resulted from the different locations of the parcels of land we acquired. Based on our current development plans, we believe we have sufficient land reserves for property developments for the next three years. We expect competition among developers for land reserves that are suitable for property development to remain intense. In addition, the statutory means of public tender, auction and listing-for-sale practice in respect of the grant of state-owned land use rights may further increase competition for undeveloped land and land acquisition costs. In November 2009, the PRC government raised the minimum down payment 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 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 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. See “Risk Factors — Risks Relating to Our Business — We may not have adequate resources to fund land acquisitions or property developments, or to service our financing obligations” and “— We may not be able to obtain land resources that are suitable for our model of property development”.

## **Pre-sales**

Pre-sales constitute the most important source of our operating cash inflow during project development. During 2012, 2013, 2014 and the first six months of 2015, our pre-sale cash inflow amounted to RMB5,748.8 million, RMB6,866.5 million, RMB8,696.2 million and RMB4,742.4 million, respectively. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain requirements and requires us to use the pre-sale proceeds to develop the property projects that are pre-sold. The amount and timing of cash inflows from pre-sales are affected by a number of factors, including timing and other restrictions on pre-sale imposed by the PRC government, market demand for our properties subject to pre-sale and the number of properties we have available for pre-sale. Reduced cash flow from pre-sales of our properties will increase our reliance on external financing and will impact our ability to finance our continuing property developments.

## **Access to and Cost of Financing**

Borrowing is an important source of funding for our property developments. As of December 31, 2012, 2013, 2014 and June 30, 2015, our outstanding bank and other borrowings and finance lease liabilities (excluding the 2015 Notes, 2014 Notes, the 2018 Notes, the 2016 Notes and the 2017 Notes) amounted to RMB8,171.2 million, RMB11,241.3 million, RMB14,713.9 million and RMB15,768.3 million, respectively. During each of 2012, 2013, 2014 and the six months ended June 30, 2015, the average interest rate on our bank and other borrowings and finance lease liabilities, computed as our total interest expenses for each period divided by our monthly average outstanding bank and other borrowings and finance lease liabilities in that period was 8.58%, 7.25%, 8.07% and 7.68%, respectively, and our aggregate interest expenses on bank and other borrowings and finance lease liabilities during the same periods amounted to RMB731.5 million, RMB768.6 million, RMB1,053.6 million and RMB584.4 million, respectively. As commercial banks in China link the interest rates on their loans to benchmark lending rates published by the PBOC, any increase in those benchmark lending rates will increase the interest costs for our developments. Our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC government on bank lending for property developments. See “Risk Factors — Risks Relating to Our Business — We may not have adequate resources to fund land acquisitions or property developments, or to service our financing obligations”.

When needs arise, we may also seek financing in the international capital markets similar to our issue of the 2015 Notes, the 2014 Notes, the 2018 Notes, the 2016 Notes, the 2017 Notes, which may give us a longer maturity term but we may have to bear higher interest rates than those obtained on our bank or other commercial borrowings.



## **Product Mix and Geographic Location**

We have in the past retained certain portions of our retail properties for long-term investment purposes, and intend in the future to retain an increasing portion of our retail properties for recurring rental income and/or for capital appreciation. We have historically sold, and intend to continue to sell, our residential properties to purchasers for immediate cash flow. Accordingly, our results of operations and the source and amount of cash from our operations may vary significantly from period to period depending on the type of properties we sell or lease out. For 2012, 2013, 2014 and the six months ended June 30, 2015, our revenue from sales of properties was RMB4,975.7 million, RMB6,243.9 million, RMB8,265.2 million and RMB4,073.4 million, respectively, with a gross profit margin of approximately 40%, 26%, 26% and 31%, respectively.

For 2012, 2013, 2014 and the six months ended June 30, 2015, our rental income was RMB320.8 million, RMB349.2 million, RMB444.8 million and RMB259.9 million, respectively, with a gross margin of approximately 81%, 75%, 72% and 74%, respectively. In addition, retail properties generally command higher selling prices than residential properties, therefore the proportion of retail and residential properties sold in any given period may also affect our revenue from period to period. Our results of operations and cash flows will also vary depending on the proportion of our investment properties held for lease and properties held for sale, as investment properties generate steady recurring income while properties for sale produce relatively larger but non-recurring revenue.

Our results of operations are also affected by the geographic location of our properties. Properties located in different cities or regions often command different selling prices and land acquisition and construction costs and thus result in different gross margins. Our properties located at first-tier cities typically command higher average selling prices per sq.m. and gross margins than our properties located at second- or third-tier cities.

## **Valuation of Our Investment Properties**

We assess the fair value of our investment properties at every reported balance sheet date. In accordance with HKFRS, gains or losses (as applicable) arising from changes in the fair value of our investment properties are accounted for in our income statements in the period in which they arise. See — Critical Accounting Policies — Fair Value Gains on Investment Properties. Based on independent valuations, we recognize the aggregate fair market value of our investment properties on our consolidated balance sheet, and recognize changes in fair values of investment properties and the relevant deferred tax in our consolidated income statement. For the years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, we recognized fair value gains on our investment properties of RMB1,743.7 million, RMB530.7 million, RMB599.3 million and RMB701.3 million (US\$113.1 million), respectively. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. Macroeconomic factors, including economic growth rates, interest rates, inflation rates, urbanization rates and disposable income levels, 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. If the fair value of our investment properties declines, our profitability would be materially and adversely affected. In addition, fair value gains or losses do not give rise to any change to our cash position unless the relevant investment property is sold. Therefore, we may experience constraints on our liquidity even though our profitability increases.

## **Land and Construction Costs**

Our results of operations are affected by key components of our cost of sales, such as land costs and construction costs. In 2012, 2013, 2014 and the first six months of 2015, our land costs were RMB389.3 million, RMB1,194.8 million, RMB2,193.9 million (US\$353.9 million) and RMB454.9 million (US\$73.4 million), respectively, and our land cost as a percentage of our property sales revenue was approximately 7.8%, 19.1%, 26.5% and 11.2%, respectively. Land premiums have generally been increasing over the past 10 years in China. We believe that land premiums will continue to rise as the PRC economy continues to develop. Another key component of our cost of sales is construction costs, which are susceptible to the price volatility of construction materials such as steel and cement. Cost of materials constitutes the most important item in our construction costs, and exceeds our construction labor cost and project design cost. Historically, for a substantial part of our purchases of construction materials, we used a centralized procurement process to help increase our negotiating power and lower our unit cost for construction materials. Going forward, as a result of changes to our procurement policy to enhance

efficiency and project management, we will centralize our purchases of only steel and key equipment such as escalators, elevators and air conditioning units, and our contractors will be responsible for the procurement of cement under the construction contracts. Despite the efficiencies and pricing advantages of our volume purchases, any rising costs for construction materials will impact our cost of sales and overall project costs. As a result, fluctuations in the prices of our construction materials have had, and will continue to have, a significant impact on our results of operations.

## **CRITICAL ACCOUNTING POLICIES**

We prepare our consolidated financial information in accordance with HKFRS. The preparation of financial information in conformity with HKFRS requires us to make judgments, estimates and assumptions that affect:

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

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

When reviewing our financial information, you should consider:

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

We believe the following accounting policies are the most significant or involve a higher degree of judgment and estimates used in the preparation of our consolidated financial information.

### **Investment Properties**

We hold certain completed properties for long-term rental yields or for capital appreciation or both, but not for our own occupation. These completed properties are classified as completed investment properties. The properties that are being constructed for investment purposes are classified as investment properties under construction.

Investment properties are initially measured at cost, including related transaction costs and where applicable, borrowing costs. After initial recognition, investment properties are carried at fair value, unless the fair value could not be reliably determined on a continuing basis. The investment properties are measured as cost if the fair value can not be reliably determined on a continuing basis.

The best evidence of fair value is the current prices in an active market for the properties with similar leases and other contracts. In the absence of such information, we determine the amount within a range of reasonable fair value estimates, which are based on information from a variety of sources including:

- current prices in an active market for properties of different nature, condition or location (or subject to different leases 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 dates of the transactions that occurred at those prices; and

- discounted cash flow projections based on estimates of future cash flows, derived from the terms of any existing leases and other contracts and (where possible) from external evidence such as current market rents 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.

Investment properties under construction are carried at fair value when such fair value is considered to be reliably measurable. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management mainly considers the factors set forth below, among others:

- provisions of the construction contract;
- stage of completion;
- whether the project/property is standard (typical for the market) or non-standard;
- level of reliability of cash inflows after completion;
- development risk specific to the property;
- past experience with similar constructions; and
- status of construction permits.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods such as recent prices on less active markets or discounted cash flow projections are used. These valuations are performed periodically by independent valuers. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the properties. Changes in fair values of investment properties are recognized as “fair value gains/losses on investment properties” in our consolidated statement of comprehensive income.

### **Revenue Recognition**

Our revenue comprises proceeds from sales of properties that we develop, rental income generated from investment properties, income from our property management operations and income from other property related services. We recognize our revenue after the completed properties have been sold and delivered, with all relevant permits and certificates having been obtained and typically at the time when the risks and rewards of the property has been passed to the purchaser. Such revenue recognition is made on a property-by-property basis as we complete and deliver each property. Deposits received from pre-sales of properties are carried as advances from customers.

### **Properties under Development and Completed Properties Held for Sale**

For accounting purposes, properties under development include only properties for which we have obtained the relevant land use rights certificates and the relevant construction permits. Properties under development and completed properties for sale are stated at the lower of cost and net realizable value. Development cost of property mainly comprises construction costs, amortization of land use rights during the construction period, capitalized borrowing costs on qualifying assets and professional fees during the development period. Net realizable value for properties under development takes into account the price ultimately expected to be realized, less applicable variable selling expenses and anticipated cost of completion. Net realizable value for completed properties held for sale is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions. Significant estimates and judgment by management are therefore required in such cases to determine net realizable value. Land use rights before their amortization into properties under development are carried as land use rights in our consolidated balance sheets.

## **Borrowing Costs**

We capitalize our borrowing costs as part of the cost of sales for a project to the extent that such costs are directly attributable to the acquisition and construction of such project. In general, we capitalize the borrowing costs incurred from the commencement of the construction upon receipt of the construction permit for the relevant project until the relevant project is ready for delivery. Borrowing costs incurred after the completion of construction or otherwise not directly attributable to the acquisition and construction of such project are recorded on our consolidated statement of comprehensive income as finance costs in the period in which they are incurred.

## **Current and Deferred Income Tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries/regions where we and our subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future.

## **LAT**

LAT is recognized as tax expense to the extent that it is probable that we have the obligation to pay such tax to the PRC tax authorities. When we pre-sell properties under development and receive advances from pre-sales of properties, we prepay LAT on the basis of our pre-sale proceeds in accordance with requirements of PRC tax authorities. The actual LAT liabilities are, however, subject to the determination by the tax authorities upon completion of the property development projects and, because the PRC government has not published clear and comprehensive guidelines in this regard, the tax authorities may disagree that our provision is sufficient to cover all actual LAT obligations as at each balance sheet date in respect of our past LAT liabilities. Our prepaid LAT is recorded as a part of "prepaid taxes" under current assets on our consolidated balance sheets. In 2012, 2013, 2014 and the six months ended June 30, 2015, we prepaid LAT at 1.0% to 3.5% of pre-sale of properties as required by the local tax authorities. In 2012, 2013, 2014 and the six months ended June 30, 2015, we made LAT payments of RMB249.5 million, RMB240.7 million, RMB391.1 million and RMB231.6 million, respectively. We also made LAT provisions of RMB355.7 million, RMB192.9 million, RMB90.5 million and RMB199.4 million during the years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, respectively. Provisions for unsettled LAT liabilities are recorded as a part of "income tax payables" on our consolidated balance sheets. Until the PRC government further clarifies its LAT regulations and enforces them on a uniform basis, our actual LAT liabilities will continue to be subject to a degree of uncertainty. We endeavor to make full provision for our LAT liability despite the current uncertainty.

## CERTAIN INCOME STATEMENT ITEMS

### Revenue

We derived our revenue during 2012, 2013, 2014 and the six months ended June 30, 2015 primarily from the sales of the properties that we developed. We recognize our revenue after the completed properties have been sold and delivered, with all relevant permits and certificates having been obtained and typically at the time when the risks and rewards of the property has been passed to the purchaser. Such revenue recognition is made on a property by property basis as we complete and deliver each property. As is customary in the PRC property industry, we pre-sell our properties prior to their completion in accordance with PRC pre-sale regulations. We do not, however, recognize the sales of properties until we have completed the construction of these properties and the properties have been delivered to the purchasers. Typically there is a time gap ranging from 10 to 24 months between the time we commence pre-sale of the properties under development and the delivery of the completed properties. We record the proceeds from the pre-sold properties as “advances from customers” under current liabilities on our consolidated balance sheets, and as “advances from customers” under “cash generated from operating activities” on our consolidated cash flow statements. Revenue from property leasing of our investment properties is recognized on a straight-line basis over the term of the relevant lease. Revenue from property management services is recognized in the period when services are rendered. Revenue from other services related to property development is recognized when services are rendered.

The table below sets forth, for the periods and projects indicated, the revenue, the total GFA of properties we delivered and the average selling prices per square meter for these properties, as measured by dividing the revenue by the aggregate GFA delivered.

	Year ended December 31,						Six months ended June 30,					
	2012			2013			2014			2015		
	Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)	Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)	Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)	Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)
<b>Bengbu Powerlong Plaza</b>	3,117	542	5,751	3,457	2,208	1,566	3,701	555	6,668	2,242	89	25,191
Commercial*	3,117	542	5,751	3,056	279	10,953	2,480	190	13,053	2,242	89	25,191
Residential	—	—	—	401	1,929	208	1,221	365	3,345	—	—	—
<b>Changzhou Powerlong Plaza</b>	663,308	103,204	6,427	47,007	6,758	6,956	122,602	16,471	7,444	112,870	15,742	7,170
Commercial*	42,911	2,634	16,291	12,965	789	16,432	121,281	16,251	7,463	111,549	15,522	7,187
Residential	620,397	100,570	6,169	34,042	5,969	5,703	1,321	220	6,005	1,321	220	6,005
<b>Luoyang Powerlong Plaza</b>	892,429	148,833	5,996	717,304	125,177	5,730	268,024	15,728	17,041	3,479	377	9,228
Commercial*	277,387	31,190	8,893	119,265	9,258	12,882	267,668	15,619	17,137	3,086	253	12,198
Residential	615,042	117,643	5,228	598,039	115,919	5,159	356	109	3,266	393	124	3,169
<b>Qingdao Jimo Powerlong Plaza</b>	1,062,895	175,126	6,069	624,902	113,115	5,524	690,276	97,091	7,110	432,675	70,287	6,156
Commercial*	277,050	22,704	12,203	131,978	11,061	11,932	610,873	81,042	7,538	353,933	55,688	6,356
Residential	785,845	152,422	5,156	492,924	102,054	4,830	79,403	16,049	4,948	78,742	14,599	5,394
<b>Quanzhou Yongchun Powerlong Plaza</b>	—	—	—	—	—	—	—	—	—	—	—	—
Commercial*	—	—	—	—	—	—	—	—	—	—	—	—
Residential	—	—	—	—	—	—	—	—	—	—	—	—
<b>Quanzhou Anxi Powerlong Plaza</b>	768,783	138,372	5,556	139,020	22,356	6,218	13,315	4,587	2,903	4,455	1,343	3,317
Commercial*	388,136	54,839	7,078	65,965	6,788	9,718	356	45	7,911	234	45	5,200
Residential	380,647	83,533	4,557	73,055	15,568	4,693	12,959	4,542	2,853	4,221	1,298	3,252
<b>Suzhou Taicang Powerlong Plaza</b>	—	—	—	226,727	33,640	6,740	6,615	948	6,978	4,295	585	7,342
Commercial*	—	—	—	37,794	5,763	6,558	6,615	948	6,978	4,295	585	7,342
Residential	—	—	—	188,933	27,877	6,777	—	—	—	—	—	—
<b>Wuxi Yuqi Powerlong Riverside Garden</b>	127,424	28,913	4,407	51,778	12,219	4,237	4,899	1,249	3,922	3,229	829	3,895
Commercial*	184	32	5,750	4,193	1,149	3,649	544	221	2,462	—	—	—
Residential	127,240	28,881	4,406	47,585	11,070	4,299	4,355	1,028	4,236	3,229	829	3,895
<b>Xinxiang Powerlong Plaza</b>	767,006	173,442	4,422	282,211	54,581	5,170	358,449	69,945	5,125	185,960	36,169	5,141
Commercial*	102,655	7,504	13,680	87,986	7,083	12,422	353,143	68,439	5,160	183,087	35,134	5,211
Residential	664,351	165,938	4,004	194,225	47,498	4,089	5,306	1,506	3,523	2,873	1,035	—

## Year ended December 31,

Six months ended June 30,

	2012				2013				2014				2015			
	Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)		Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)		Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)		Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)	
<b>Zhengzhou Powerlong Plaza</b>	424	24	17,667	—	—	—	—	—	—	—	—	—	—	—	—	—
Commercial*	424	24	17,667	—	—	—	—	—	—	—	—	—	—	—	—	—
Residential	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Chongqing Hechuan Powerlong Plaza</b>	26,007	5,285	4,921	744,241	140,802	5,286	459,640	81,286	5,655	177,452	20,418	8,691	33,892	3,034	11,172	—
Commercial*	—	—	—	211,172	14,802	14,266	174,093	18,921	9,201	108,614	6,201	17,516	31,919	2,957	10,793	—
Residential	26,007	5,285	4,921	533,069	126,000	4,231	285,547	62,365	4,579	68,838	14,217	4,842	1,973	76	25,846	—
<b>Xiamen Powerlong One Mall</b>	24,917	2,460	10,129	553,613	27,605	20,055	1,171,060	41,533	28,196	667,102	21,340	31,261	29,429	892	32,976	—
Commercial*	24,917	2,460	10,129	11,000	293	37,543	146,970	8,196	17,932	88,856	2,061	43,113	21,288	692	30,764	—
Residential	—	—	—	542,613	27,312	19,867	1,024,090	33,337	30,719	578,246	19,279	29,994	8,140	200	40,612	—
<b>Shanghai Hangqiao Powerlong City</b>	—	—	—	—	—	—	1,624,164	105,285	15,426	940,200	62,392	15,069	190,324	10,455	18,205	—
Commercial*	—	—	—	—	—	—	1,624,164	105,285	15,426	940,200	62,392	15,069	142,908	7,609	18,780	—
Residential	—	—	—	—	—	—	601,461	22,785	26,397	548,977	5,343	21,108	146,159	7,147	20,449	—
<b>Shanghai Caolu Powerlong Plaza</b>	—	—	—	601,461	22,785	26,397	548,977	26,424	20,776	112,781	5,343	21,108	146,159	7,147	20,449	—
Commercial*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Residential	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Shanghai Fengxian Powerlong Plaza</b>	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Commercial*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Residential	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Yantai Penglai Powerlong Plaza</b>	—	—	—	—	—	—	175,356	16,425	10,676	—	—	—	—	—	—	—
Commercial*	—	—	—	—	—	—	175,356	16,425	10,676	—	—	—	—	—	—	—
Residential	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Quanzhou Jinjiang Powerlong Plaza</b>	—	—	—	1,299,716	177,269	7,332	797,117	111,429	7,154	707,146	96,843	7,302	60,285	10,873	5,545	—
Commercial*	—	—	—	262,565	12,290	21,364	168,035	29,480	5,700	140,130	18,533	7,561	49,089	9,097	5,396	—
Residential	—	—	—	1,037,151	164,979	6,287	629,082	81,949	7,677	567,016	78,310	7,241	11,196	1,776	6,304	—
<b>Zhenjiang Powerlong Plaza</b>	—	—	—	76,493	6,129	12,481	42,126	2,951	14,275	24,593	1,750	14,053	447,779	90,780	4,933	—
Commercial*	—	—	—	76,493	6,129	12,481	42,126	2,951	14,275	24,593	1,750	14,053	38,360	2,990	12,830	—
Residential	—	—	—	—	—	—	—	—	—	—	—	—	409,418	87,790	4,664	—

## Year ended December 31,

Six months ended June 30,

	2012			2013			2014			2015		
	Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)	Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)	Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)	Revenue (RMB in thousands)	GFA Delivered (Sq.m.)	Average Selling price (RMB/ Sq.m.)
<b>Qingdao Jiaozhou Powerlong Plaza</b>	—	—	—	392,475	44,991	8,723	—	—	—	524,790	87,351	6,008
Commercial* . . . . .	—	—	—	193,346	12,219	15,823	—	—	—	229,308	34,753	6,598
Residential . . . . .	—	—	—	199,129	32,772	6,076	—	—	—	295,482	52,598	5,618
<b>Zhangzhou Yunxiao General Avenue No. 1</b>	—	—	—	169,422	33,192	5,104	—	—	—	56,526	9,731	5,809
Commercial* . . . . .	—	—	—	1,186	55	21,564	—	—	—	8,648	507	17,070
Residential . . . . .	—	—	—	168,236	33,137	5,077	—	—	—	47,877	9,225	5,190
<b>Hangzhou Xiasha Powerlong Plaza</b>	—	—	—	347,713	27,455	12,665	384,116	14,283	26,893	24,494	2,118	11,564
Commercial* . . . . .	—	—	—	33,874	1,248	27,143	369,321	13,722	26,915	—	—	—
Residential . . . . .	—	—	—	313,839	26,207	11,975	14,795	561	26,373	24,494	2,118	11,564
<b>Others</b>	639,350	86,881	7,359	528,221	97,807	5,401	8,384	1,188	7,057	9,914	1,113	8,911
Commercial* . . . . .	613,030	83,311	7,358	181,090	32,496	5,573	5,295	610	8,680	9,914	1,113	8,911
Residential . . . . .	26,320	3,570	7,373	347,131	65,311	5,315	—	—	3,089	—	—	—
<b>Total</b>	1,729,811	205,240	8,428	1,840,858	132,210	13,924	3,761,006	347,056	10,837	1,508,016	155,536	9,696
Commercial* . . . . .	3,245,849	657,842	4,934	4,403,006	737,694	5,969	4,504,179	405,303	11,113	2,262,963	193,442	11,698
Residential . . . . .	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total</b>	4,975,660	863,082	5,765	6,243,864	869,905	7,178	8,265,185	752,359	10,986	3,770,979	348,978	10,806
										4,073,434	568,583	7,164

\* Include car parking area



The table below sets forth, for the periods indicated, our revenue from property sales by project and revenue from other sources.

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	(RMB in millions)				
<b>Property development</b>					
Bengbu Powerlong Plaza . . . . .	3.1	3.5	3.7	2.2	1.4
Zhengzhou Powerlong Plaza . . . . .	0.4	—	—	—	0.7
Luoyang Powerlong Plaza . . . . .	892.4	717.3	268.0	3.5	918.0
Wuxi Yuqi Powerlong Riverside Garden . . . . .	127.4	51.8	4.9	3.2	0.2
Xinxiang Powerlong Plaza . . . . .	767.0	282.2	358.4	186.0	315.7
Changzhou Powerlong Plaza . . . . .	663.3	47.0	122.6	112.9	486.8
Qingdao Jimo Powerlong Plaza . . . . .	1,062.9	624.9	690.3	432.7	75.7
Quanzhou Anxi Powerlong Plaza . . . . .	768.8	139.0	13.3	4.5	191.0
Chongqing Hechuan Powerlong Plaza . . . . .	26.0	744.2	459.6	177.5	33.9
Xiamen Powerlong One Mall . . . . .	25.0	553.6	1,171.1	667.1	29.4
Quanzhou Jinjiang Powerlong Plaza . . . . .	—	1,299.7	797.1	707.1	60.3
Shanghai Caolu Powerlong Plaza . . . . .	—	601.5	549.0	112.8	146.2
Zhenjiang Powerlong Plaza . . . . .	—	76.5	42.1	24.6	447.8
Suzhou Taicang Powerlong Plaza . . . . .	—	226.7	6.6	4.3	0.3
Hangzhou Xiasha Powerlong Plaza . . . . .	—	347.7	1,411.2	384.1	24.5
Shanghai Hongqiao Powerlong City . . . . .	—	—	1,624.2	940.2	190.3
Quanzhou Yongchun Powerlong Plaza . . . . .	—	—	—	—	24.9
Shanghai Fengxian Powerlong Plaza . . . . .	—	—	—	—	529.9
Yantai Penglai Powerlong Plaza . . . . .	—	—	175.4	—	5.3
Qingdao Jiaozhou Powerlong Plaza . . . . .	—	—	392.5	—	524.8
Zhangzhou Yunxiao General Avenue No. 1 . . . . .	—	—	169.4	—	56.5
Others . . . . .	639.4	528.3	5.8	8.3	9.8
Subtotal . . . . .	<u>4,975.7</u>	<u>6,243.9</u>	<u>8,265.2</u>	<u>3,771.0</u>	<u>4,073.4</u>
<b>Property management services . . . . .</b>	187.6	351.9	467.5	223.4	243.7
<b>Property investment . . . . .</b>	320.8	349.2	444.8	212.2	259.9
<b>Other Service . . . . .</b>	<u>387.7</u>	<u>312.0</u>	<u>485.5</u>	<u>216.1</u>	<u>151.4</u>
<b>Total . . . . .</b>	<u><u>5,871.8</u></u>	<u><u>7,256.9</u></u>	<u><u>9,663.0</u></u>	<u><u>4,422.7</u></u>	<u><u>4,728.4</u></u>

For 2012, 2013, 2014 and the six months ended June 30, 2015, our revenue was primarily generated from sales of our developed properties, which amounted to approximately 84.7%, 86.0%, 85.5% and 86.1% of our revenue, respectively. Our rental income from investment properties and income from property management services and income from other property development related services comprised 15.3%, 14.0%, 14.5% and 13.9% of our revenue for the year ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015. Income from our property management services and rental income from investment properties increased substantially between 2012, 2013, 2014 and the six months ended June 30, 2015 following commencement of rental and related property management operations at more of our properties. Income from other property development related services also increased substantially during 2012, 2013 and 2014 as we opened one new hotel in 2012 and 2013. Income from other property development related services decreased in 2013, primarily as a result of adjustments made in the second half of 2012 to our department store operating model from the direct sales model to the concessionaire sales model. Income from other property development related service for the six months ended June 30, 2015 decreased primarily because of our decision to stop operating department stores.

### Cost of Sales

Cost of sales comprises primarily costs incurred directly for our property development, including land acquisition costs, construction costs, capitalized interest expenses, business tax and other levies. The table below sets forth the breakdown by these categories of our cost of sales for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2012		2013		2014		2014		2015	
	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)
	(unaudited)									
Land acquisition cost . . . . .	389.3	11	1,194.8	23	2,193.9	32	920.2	30	454.9	14
Construction costs . . . . .	2,026.9	57	2,596.8	50	2,630.0	38	1,291.9	41	1,887.8	59
Subtotal . . . . .	2,416.2	68	3,791.6	73	4,823.9	70	2,212.1	71	2,342.7	73
Business tax and other taxes . . .	343.7	10	427.8	8	576.5	8	249.7	8	273.5	9
Capitalized interest expenses . . . . .	224.9	6	449.4	9	801.8	12	347.1	11	231.9	7
Others . . . . .	555.3	16	533.0	10	677.8	10	321.8	10	354.7	11
Total . . . . .	<u>3,540.1</u>	<u>100</u>	<u>5,201.8</u>	<u>100</u>	<u>6,880.0</u>	<u>100</u>	<u>3,130.7</u>	<u>100</u>	<u>3,202.8</u>	<u>100</u>

**Land acquisition costs.** Land acquisition costs represent costs relating to the acquisition of the rights to occupy, use and develop land, including land premium, other land-related taxes and government surcharges, and relocation and resettlement cost. In addition to PRC economic development and property market conditions, our land acquisition costs are affected by the location of the property projects and the timing of acquisition. In 2012, 2013, 2014 and the six months ended June 30, 2015, our average land acquisition costs per square meter of GFA were RMB451.0, RMB1,373.5, RMB2,916.0 and RMB800.1, respectively, as measured by dividing the aggregate land costs recognized in our consolidated statement of comprehensive income by the total GFA of properties delivered within these periods.

Land acquisition costs, as part of our cost of sales, are recognized upon the completion and delivery of relevant properties to the purchasers. In 2012, we sold and delivered most of our completed properties in Jimo, Xinxiang and Anxi. In 2013, we sold and delivered most of our completed projects in Xiamen, Shanghai, Jinjiang, Chongqing, Luoyang, Jimo, Hangzhou and Suqian. In 2015, we sold and delivered most of our completed projects in Shanghai, Luoyang, Qingdao, Changzhou, Zhenjiang and Xinxiang. In the first six months of 2015, we sold and delivered an aggregate GFA of 568,583 sq.m for a total of RMB4,073.4 million. Our land acquisition costs increased significantly in 2013, primarily attributable to the completion and delivery of properties in Xiamen Powerlong Lakeside Mansions, Hangzhou Xiasha Powerlong Plaza and Shanghai Caolu Powerlong Plaza, which have relatively higher land costs. Our land acquisition costs increased in 2014 primarily because we acquired more land in Shanghai and other first and second tier cities.

**Construction costs.** Construction costs represent costs for the design and construction of a property project, consisting primarily of fees paid to our contractors, including contractors responsible for civil engineering, landscaping, equipment installation and interior decoration, as well as infrastructure construction costs, design costs and certain government surcharges. Our construction costs are affected by a number of factors such as price movements of construction materials, location and types of properties, choices of materials and investments in ancillary facilities. The price fluctuation in construction materials during 2012, 2013, 2014 and the six months ended June 30, 2015 affected our construction costs and our gross profit margin. Substantially all of the costs of construction materials, whether procured by ourselves or by our contractors, were accounted for as part of the contractor fees upon settlement with the relevant contractors. A portion of our properties completed and delivered in 2012, 2013, 2014 and the six months ended June 30, 2015 were interior-furnished units, which also generated more construction costs than non-interior-furnished units, although interior-furnished units tend to generate higher selling prices.

**Business tax and other levies.** We include business tax and other levies such as city development tax and education supplementary tax as part of our cost of sales.

**Capitalized interest.** We capitalize our borrowing costs as part of the cost of sales for a project to the extent that such costs are directly attributable to the acquisition or construction of such project. See “Critical Accounting Policies — Borrowing Costs.”

We incurred a substantial amount of interest expenses in relation to our bank borrowings and other indebtedness during 2012, 2013, 2014 and the six months ended June 30, 2015 and we capitalized a large portion of these interest expenses. The capitalized interest expenses recognized as cost of sales in 2012, 2013, 2014 and the six months ended June 30, 2015 amounted to RMB224.9 million, RMB449.4 million, RMB801.8 million and RMB231.9 million, respectively. Going forward, we expect to recognize such capitalized interest expenses as cost of sales progressively according to our project completion and delivery schedule.

The table below sets forth, for the periods indicated, our cost of sales by project and by business segment.

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	(unaudited)				
	(RMB in millions)				
<b>Property development</b>					
Bengbu Powerlong Plaza . . . . .	2.0	3.5	4.1	1.5	0.2
Zhengzhou Powerlong Plaza . . . . .	0.4	—	—	—	0.3
Luoyang Powerlong Plaza . . . . .	471.1	513.3	60.3	2.2	614.5
Wuxi Yuqi Powerlong Riverside Garden . . . . .	100.1	43.8	7.9	2.8	1.6
Xinxiang Powerlong Plaza . . . . .	491.4	175.9	233.6	100.7	230.6
Changzhou Powerlong Plaza . . . . .	427.1	37.9	62.7	63.1	284.5
Qingdao Jimo Powerlong Plaza . . . . .	569.3	411.7	427.6	326.4	55.0
Quanzhou Anxi Powerlong Plaza . . . . .	486.5	85.6	13.9	0.9	129.6
Chongqing Hechuan Powerlong Plaza	17.2	482.9	369.2	144.9	49.1
Xiamen Powerlong One Mall . . . . .	20.9	531.1	1,065.6	531.8	72.7
Quanzhou Jinjiang Powerlong Plaza . .	—	975.6	590.5	519.4	36.7
Shanghai Caolu Powerlong Plaza . . . .	—	328.7	348.0	93.4	95.3
Zhenjiang Powerlong Plaza . . . . .	—	41.2	24.8	16.0	427.9
Suzhou Taicang Powerlong Plaza . . . .	—	169.1	4.8	2.6	—
Hangzhou Xiasha Powerlong Plaza . .	—	337.4	1,256.8	299.4	15.2
Shanghai Hongqiao Powerlong City . .	—	—	1,166.4	652.7	155.9
Quanzhou Yongchun Powerlong Plaza	—	—	—	—	10.3
Shanghai Fengxian Powerlong Plaza .	—	—	—	—	202.6
Yantai Penglai Powerlong Plaza . . . .	—	—	126.3	—	—
Qingdao Jiaozhou Powerlong Plaza . .	—	—	183.9	—	365.4
Zhangzhou Yunxiao General Avenue No. 1 . . . . .	—	—	136.5	—	43.8
Others . . . . .	409.2	453.5	6.8	5.6	8.7
Subtotal . . . . .	2,995.2	4,591.2	6,089.7	2,763.4	2,799.9
<b>Property management services . . . .</b>	117.4	273.0	345.0	156.4	181.9
<b>Property investment . . . . .</b>	60.1	86.7	126.6	45.4	66.7
<b>Other Service . . . . .</b>	367.4	250.9	318.7	165.5	154.3
<b>Total . . . . .</b>	3,540.1	5,201.8	6,880.0	3,130.7	3,202.8

During the relevant periods, we incurred a majority of our cost of sales in the property development segment. Cost of sales for our property management services, property investment and other related services segments comprised 12.6% of our overall cost of sales for the six months ended June 30, 2015. Our cost of sales generally increased during the relevant periods as our business operations expanded.

### **Fair Value Gains on Investment Properties**

We hold certain properties such as retail units in our commercial complexes for recurring rental income and/or capital appreciation. Our investment properties are revalued periodically on an open market value or existing use basis by an independent property valuer using the investment method. This method is appropriate for valuing investment properties as it is able to reflect the value of property during the lease period of the property. Investment properties are initially measured at cost, including related transaction costs and where applicable, borrowing costs. After initial recognition, investment properties are carried at fair value, unless the fair value cannot be reliably determined on a continuing basis. The investment properties are measured as cost if the fair value could be reliably determined on a continuing basis. Prior to 2011, our investment properties under construction were measured at cost. Our management, after consulting an independent qualified valuer, concluded that the fair value of certain investment properties under construction as of December 31, 2011 could be measured at a reasonably accurate level. Any appreciation or depreciation in our investment property value is recognized as a fair value gain or loss in our consolidated statement of comprehensive income. We started to hold investment properties in December 2006 when we completed the ground floor of Fuzhou Powerlong Plaza and decided to hold more investment properties when we completed the whole project in 2007. As of December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, we held completed investment properties with a total leasable GFA of 1.5 million square meters, 1.6 million square meters, 1.8 million square meters and 2.0 million square meters, respectively. For the years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, we recognized fair value gains on our investment properties in the amount of RMB1,743.7 million, RMB530.7 million, RMB599.3 million and RMB701.3 million, respectively. The amount of revaluation adjustments have been, and may continue to be, significantly affected by the prevailing property markets. See “Critical Accounting Policies — Investment properties.”

### **Selling and Marketing Costs**

Selling and marketing costs comprise primarily advertising and promotion expenses, sales commissions and other expenses relating to the marketing and sales of our properties, including salaries for our sales and marketing personnel, advertisement on television and in newspapers, magazines and on billboards.

### **Administrative Expenses**

Administrative expenses comprise primarily administrative staff costs, depreciation, amortization, land use tax and charitable contributions.

### **Other Gains and Losses (Net)**

Other gains and losses (net) comprise primarily gains and losses on foreign exchange and the disposal of investment properties.

### **Finance Costs and Income**

Finance costs comprise primarily interest expenses on bank borrowings and other indebtedness, net of capitalized interest relating to properties under development. See “Critical Accounting Policies — Borrowing Costs” above. Since the construction period for a project does not necessarily coincide with the interest payment period of the relevant loan, not all of the interest costs related to a project can be capitalized. As a result, our finance costs fluctuate from period to period depending on the level of interest costs that are capitalized within the reporting period.

## Income Tax

Income tax is comprised of primarily PRC corporate income tax and LAT. The PRC corporate income tax rate generally levied in China was 33% of taxable income before January 1, 2008. There are preferential income tax treatments available to eligible companies pursuant to relevant national or local regulations. As Xiamen is designated by the PRC government as a special economic zone in China, our Xiamen Registered Subsidiaries paid corporate income tax at a reduced rate of 15% prior to January 1, 2008.

Effective since January 1, 2008, PRC companies are subject to the new national corporate income tax of 25% unless the company qualifies under certain limited exceptions pursuant to the new PRC Corporate Income Tax Law adopted by the National People's Congress in March 2007. As a result of this regulatory change, we may not continue to receive the tax concession currently enjoyed by our Xiamen Registered Subsidiaries. As there is a five-year transition period to phase in the new 25% corporate income tax rate, the corporate income tax rate applicable to our Xiamen Registered Subsidiaries was 24% in 2011 and 25% in 2012 and 2013. Our property developments are subject to LAT. We make LAT provisions based on our calculation in accordance with relevant government regulations.

The following table sets forth our provisions for corporate income tax and LAT for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
	(RMB in thousands)				
<b>Current income tax</b>					
PRC corporate income tax. . . . .	266,763	343,281	643,865	312,704	165,069
PRC land appreciation tax. . . . .	355,660	192,891	90,490	8,287	199,429
Provision/(reversal of) withholding income tax for profits to be distributed from the group companies in the PRC . . . . .	35,982	(14,411)	17,000	—	—
<b>Deferred income tax</b>					
PRC corporate income tax. . . . .	538,907	141,653	(100,015)	(60,168)	221,039
<b>Total. . . . .</b>	<u>1,197,312</u>	<u>663,414</u>	<u>651,340</u>	<u>260,823</u>	<u>585,537</u>

During 2012, 2013, 2014 and the six months ended June 30, 2015, our projects under development in Zhengzhou, Bengbu, Suzhou, Wuxi, Tai'an and one project in Qingdao were subject to LAT calculated on the basis of a fixed rate (ranging from 1%–7%) of the proceeds from sales of properties, depending on the city where the relevant project company was located and the types of properties under development, in accordance with the taxation methods approved by the local tax authorities. With respect to our other projects, LAT is levied at progressive rates ranging from 30% to 60% on the appreciated value of the land. Our PRC legal counsel, Commerce & Finance Law Offices, has confirmed that, during 2012, 2013, 2014 and the six months ended June 30, 2015, we were in compliance with the relevant PRC tax laws in using the respective taxation methods to calculate LAT for these projects as such methods were approved by the local tax authorities, which are authorized to adopt and implement the taxation methods in determining LAT liabilities in their jurisdictions pursuant to 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) issued by the State Tax Bureau. See “Regulation — Major Taxes Applicable to Property Developers — LAT.”

The following table sets forth our weighted average applicable PRC corporate income tax rate and their calculation for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	(unaudited)				
	(RMB in thousands)				
Profit before income tax . . . . .	3,410,298	2,063,590	2,158,934	977,255	1,729,031
Calculated at applicable corporate income tax rate . . . . .	796,355	506,534	524,937	244,315	416,208
Effect of expenses not deductible for income tax . . . . .	78,626	12,264	18,801	4,228	656
Effect of income not subject to income tax . . . . .	(1,143)	(4,469)	(8,295)	(11,047)	(5,293)
A jointly controlled entity's result reported net of tax . . . . .	(33,520)	(27,101)	177	(10,440)	(10,450)
Tax losses for which no deferred income tax asset was recognised . . .	54,267	45,929	30,853	27,552	34,844
PRC land appreciation tax deductible for PRC corporate income tax purposes . . . . .	(88,915)	(48,223)	(22,623)	(2,072)	(49,857)
	805,670	484,934	543,850	252,536	386,108
Withholding income tax for profits to be distributed by certain group companies in the PRC . . . . .	35,982	(14,411)	17,000	—	—
PRC land appreciation tax . . . . .	355,660	192,891	90,490	8,287	199,429
Total . . . . .	1,197,312	663,414	651,340	260,823	585,537

The fluctuation of our weighted average applicable PRC corporate income tax rate in 2012, 2013, 2014 and the six months ended June 30, 2015 was primarily the result of a change in the profitability of our subsidiaries in the respective tax jurisdictions and reflected the length of time it generally took to complete a property development project.

## RESULTS OF OPERATIONS

The table below summarizes our consolidated results in absolute terms and as a percentage of our revenue for 2012, 2013, 2014 and the six months ended June 30, 2015.

	Year Ended December 31,						Six months ended June 30,			
	2012		2013		2014		2014		2015	
	(unaudited)									
	(RMB in millions, except per share data and percentages data)									
<b>Revenue</b> . . . . .	5,871.8	100.0%	7,256.9	100.0%	9,663.0	100.0%	4,422.7	100.0%	4,728.4	100.0%
Cost of sales. . . . .	(3,540.1)	(60.3%)	(5,201.8)	(71.7)%	(6,880.0)	(71.2%)	(3,130.7)	(70.8%)	(3,202.8)	(67.7%)
<b>Gross profit</b> . . . . .	2,331.7	39.7%	2,055.1	28.3%	2,783.0	28.8%	1,292.0	29.2%	1,525.6	32.3%
Fair value gains on investment properties — net. . . . .	1,743.7	29.7%	530.7	7.3%	599.3	6.2%	214.3	4.8%	701.3	14.8%
Selling and marketing costs . . . . .	(208.3)	(3.5%)	(240.5)	(3.3)%	(395.7)	(4.1%)	(151.3)	(3.4%)	(209.6)	(4.4%)
Administrative expenses . . . . .	(505.3)	(8.6%)	(584.0)	(8.0)%	(676.1)	(7.0%)	(333.1)	(7.5%)	(350.8)	(7.4%)
Other gains/(losses) — net . . . . .	(56.4)	(1.0%)	95.4	1.3%	(125.0)	(1.3%)	(29.6)	(0.7%)	13.0	0.3%
Exchange (losses)/gains — net. . . . .	0.2	0.0%	(22.5)	(0.3)%	4.7	0.0%	6.1	0.1%	5.1	0.1%
<b>Operating profit</b> . . . . .	3,305.6	56.3%	1,834.2	25.3%	2,190.2	22.6%	998.4	22.5%	1,684.6	35.7%
Finance income/(costs) — net . . . . .	(29.4)	(0.5%)	121.0	1.7%	(30.6)	(0.3%)	(73.6)	(1.7%)	2.6	0.1%
Share of profit of investments accounted for using the equity method . . . . .	134.1	2.3%	108.4	1.5%	(0.7)	0.0%	52.4	1.2%	41.8	0.9%
<b>Profit before income tax</b> . . . . .	3,410.3	58.1%	2,063.6	28.5%	2,158.9	22.3%	977.2	22.1%	1,729.0	36.6%
Income tax expense. . . . .	(1,197.3)	(20.4%)	(663.4)	(9.1)%	(651.3)	(6.7%)	(260.8)	(5.9%)	(585.5)	(12.4%)
<b>Profit for the year/period</b> . . . . .	2,213.0	37.7%	1,400.2	19.4%	1,507.6	15.6%	716.4	16.2%	1,143.5	24.2%
<b>Other comprehensive income</b> <i>Items that will not be reclassified to profit or loss:</i> Revaluation gains on property and equipment and land use rights transferred to investment properties. . . . .	83.1	1.4%	—	—	149.4	1.5%	—	0.0%	—	0.0%
<i>Items that may be reclassified subsequently to profit or loss:</i> Change in value of available-for-sale financial assets . . . . .	0.1	0.0%	0.3	0.0%	(0.3)	0.0%	0.8	0.0%	1.1	0.0%
<b>Other comprehensive income for the year/period, net of tax</b> . . . . .	83.2	1.4%	0.3	0.0%	149.1	1.5%	0.8	0.0%	1.1	0.0%
<b>Total comprehensive income for the year/period</b> . . . . .	2,296.2	39.1%	1,400.5	19.4%	1,656.7	17.1%	717.2	16.2%	1,144.6	24.2%
<b>Profit attributable to:</b> Owners of the Company. . . . .	2,193.9	37.4%	1,403.5	19.4%	1,370.8	14.6%	758.8	17.2%	1,030.4	23.3%
Holder of Perpetual Capital Instruments. . . . .	—	—	—	—	36.8	—	1.0	0.0%	72.8	—
Non-controlling interests . . . . .	19.1	0.3%	(3.3)	(0.0)%	100.0	1.0%	(43.4)	(1.0%)	40.3	0.9%
	2,213.0	37.7%	1,400.2	19.4%	1,507.6	15.6%	716.4	16.2%	1,143.5	24.2%
<b>Total comprehensive income attributable to:</b> Owners of the Company. . . . .	2,272.1	38.7%	1,403.9	19.3%	1,519.9	15.7%	759.6	17.2%	1,031.6	21.8%
Holder of Perpetual Capital Instruments. . . . .	—	—	—	—	36.8	0.4%	1.0	0.0%	72.7	1.5%
Non-controlling interests . . . . .	24.1	0.4%	(3.4)	(0.0)%	100.0	1.0%	(43.4)	(1.0%)	40.3	0.9%
	2,296.2	39.1%	1,400.5	19.3%	1,656.7	17.1%	717.2	16.2%	1,144.6	24.2%
Dividends . . . . .	323.8	—	—	—	252.3	—	—	—	—	—



## Business Segments

We are organized into four business segments:

- Property development;
- Property management services;
- Property investment; and
- Other property development related services, namely, hotel operations, department store operations, decoration services provided by Powerlong Decoration and other ancillary services complementary to our property development and property management service businesses.

The following table indicates our revenue by business segment for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	(unaudited)				
	(RMB in millions)				
Property development . . . . .	4,975.7	6,243.8	8,265.2	3,771.0	4,073.4
Property management services . . . . .	187.6	351.9	467.5	223.4	243.7
Property investment . . . . .	320.8	349.2	444.8	212.2	259.9
Other property development related services . . . . .	387.7	312.0	485.5	216.1	151.4
<b>Total</b> . . . . .	<u>5,871.8</u>	<u>7,256.9</u>	<u>9,663.0</u>	<u>4,422.7</u>	<u>4,728.4</u>

### Six months ended June 30, 2015 compared to six months ended June 30, 2014

**Revenue.** Our revenue increased by RMB305.7 million, or 6.9%, to RMB4,728.4 million for the six months ended June 30, 2015 from RMB4,422.7 million for the six months ended June 30, 2014. The increase was primarily attributable to an increase of RMB302.4 million in our revenue from sales of properties and an increase of RMB47.7 million in revenue from other property investments, partially offset by a decrease of RMB64.7 million in revenue from other property development related services.

- *Property Development.* Our revenue generated from property development increased by RMB302.4 million, or 8.0%, to RMB4,073.4 million in the six months ended June 30, 2015 from RMB3,771.0 million in the six months ended June 30, 2014. The increase was primarily due to a 62.9% increase in delivered GFA compared to the corresponding period in 2014. The average selling price of our delivered properties decreased by 33.7% to RMB7,164 per square meter in the six months ended June 30, 2015 from RMB10,806.0 per square meter in the six months ended June 30, 2014. The decrease in average selling prices was attributable to the lower selling prices of properties in second and third tier cities that we completed in the first half of 2014. Major projects completed and delivered in the six months ended June 30, 2014 with lower selling prices included retail and residential properties at Changzhou Powerlong Plaza, Zhenjiang Powerlong Plaza, Qingdao Jiaozhou Powerlong Plaza, Luoyang Powerlong Plaza and Xinxiang Powerlong Plaza.
- *Property Management Services.* Our revenue generated from property management services increased by RMB20.3 million, or 9.1%, to RMB243.7 million in the six months ended June 30, 2015 from RMB223.4 million in the six months ended June 30, 2014. The increase was primarily due to new shopping malls we opened in late 2014 at Hangzhou Xiasha Powerlong Plaza, Chongqing Hechuan Powerlong Plaza, and Tianjin Yujian Powerlong Plaza producing a full half-year's results.

- **Property Investment.** Our revenue generated from property investment increased by RMB47.7 million, or 22.5%, to RMB259.9 million in the six months ended June 30, 2015 from RMB212.2 million in the six months ended June 30, 2014. The increase was primarily due to additional rental income generated from the shopping malls we opened in late 2014.
- **Other Property Development Related Services.** Our revenue generated from other property development related services decreased by RMB64.7 million, or 30.0%, to RMB151.4 million in the six months ended June 30, 2015 from RMB216.1 million in the six months ended June 30, 2014. The decrease was primarily due to our business decision to stop operating department stores.

**Cost of sales.** Our cost of sales increased by RMB72.0 million, or 2.3%, to RMB3,202.7 million in the six months ended June 30, 2015 from RMB3,130.7 million in the six months ended June 30, 2014. The increase was primarily due to an increase of RMB82.0 million, or 30.7% in staff costs as relating to marketing activities in connection with the properties we delivered in the first half of 2015. Our cost of properties sold (excluding staff costs) was relatively unchanged in the first six months of 2015 compared with the same period in 2014; while we sold and delivered more GFA in the six months ended June 30, 2015 than in the first half of 2014, the properties we sold and delivered generally had lower land and construction costs.

**Gross profit.** Our gross profit increased by RMB233.7 million, or 18.1%, to RMB1,525.6 million in the six months ended June 30, 2015 from RMB1,292.0 million in the six months ended June 30, 2014. Our gross profit margin increased to 32.3% in the six months ended June 30, 2015 from 29.2% in the six months ended June 30, 2014, primarily due to the lower cost of sales per square meter of our delivered GFA in the six months ended June 30, 2015 as compared to the same period in 2014.

**Fair value gains on investment properties.** Fair value gains on our investment properties increased by RMB487.0 million to RMB701.3 million in the six months ended June 30, 2015 from RMB214.3 million in the six months ended June 30, 2014. The revaluation gains were mainly due to the increase of investment properties under construction.

**Selling and marketing costs.** Our selling and marketing expenses increased by RMB58.3 million, or 38.5%, to RMB209.6 million in the six months ended June 30, 2015 from RMB151.3 million in the six months ended June 30, 2014. The increase was primarily due to our business expansion coupled with the expansion of the scale of the projects we sold and managed during the six months ended June 30, 2015 as compared to the same period in 2014.

**Administrative expenses.** Our administrative expenses increased by RMB17.8 million, or 5.3%, to RMB350.9 million in the six months ended June 30, 2015 from RMB333.1 million in the six months ended June 30, 2014. The increase was primarily due to an increase in the number of our management and operational staff as a result of our expanded business operations and scale of the projects we sold and managed.

**Other gains and losses — net.** Our other losses — net in the six months ended June 30, 2015 amounted to RMB13.0 million, primarily due to fair value gains on a derivative instrument.

**Finance income/(costs — net).** We had finance income of RMB2.6 million in the six months ended June 30, 2015 compared to costs of RMB73.6 million in the six months ended June 30, 2014, primarily as a result of foreign exchange gains of RMB9.1 million.

**Income tax.** Our income tax expenses increased by RMB324.7 million, or 124.5%, to RMB585.5 million in the six months ended June 30, 2015 from RMB260.8 million in the six months ended June 30, 2014, due to an increase in profit before tax.

**Profit for the period.** Our profit for the period increased by RMB427.1 million, or 59.6%, to RMB1143.5 million in the six months ended June 30, 2015 from RMB716.4 million in the six months ended June 30, 2014.

**Non-controlling interests.** Our profit attributable to non-controlling interests in the six months ended June 30, 2015 was RMB40.3 million and our loss attributable to non-controlling interests in the six months ended June 30, 2014 was RMB43.4 million. The change was primarily due to an increase in fair value gains on investment properties.

Profit attributable to our equity holders increased by RMB271.7 million, or 35.8%, to RMB1,030.5 million in the six months ended June 30, 2015 from RMB758.8 million in the six months ended June 30, 2014.

### **2014 Compared to 2013**

**Revenue.** Our revenue increased by RMB2,406.1 million, or 33.2%, to RMB9,663.0 million for the year ended December 31, 2014 from RMB7,256.9 million for the year ended December 31, 2013. The increase was primarily attributable to an increase of RMB2,021.4 million in our revenue from sales of properties.

- **Property Development.** Our revenue generated from property development increased by RMB2,021.4 million, or 32.4% to RMB8,265.2 million in the year ended December 31, 2014 from RMB6,243.8 million in the year ended December 31, 2013. The increase was primarily due to a 53.0% increase in the average selling price on our delivered properties to RMB10,986 per square meter in the year ended December 31, 2014 from RMB7,178 per square meter in the year ended December 31, 2013. The increase was attributable to the higher average selling prices of properties that we completed in 2014. Major projects completed and delivered in the year ended December 31, 2014 with higher average selling prices included retail and residential properties at Xiamen Powerlong Lakeside Mansions, Shanghai Caolu Powerlong Plaza, Shanghai Hongqiao Powerlong and Hangzhou Xiasha Powerlong Plaza.
- **Property Management Services.** Our revenue generated from property management services increased by RMB115.6 million, or 32.9%, to RMB467.5 million in the year ended December 31, 2014 from RMB351.9 million in the year ended December 31, 2013. The increase was primarily due to an increase in management fees as a result of an increase in the number of properties managed by us.
- **Property Investment.** Our revenue generated from property investment increased by RMB95.6 million, or 27.4%, to RMB444.8 million in the year ended December 31, 2014 from RMB349.2 million in the year ended December 31, 2013. The increase was primarily due to the additional rental income derived from retail properties we opened at the end of 2013, which contributed a full year of revenue in 2014, including at Quanzhou Jinjiang Powerlong Plaza and Shanghai Caolu Powerlong Plaza.
- **Other Property Development Related Services.** Our revenue generated from other property development related services increased by RMB173.5 million, or 55.6%, to RMB485.5 million in the year ended December 31, 2014 from RMB312.0 million in the year ended December 31, 2013. The increase was primarily due to an increase in revenue from hotel operations and ancillary services.

**Cost of sales.** Our cost of sales increased by RMB1,678.2 million, or 32.3%, to RMB6,880.0 million in the year ended December 31, 2014 from RMB5,201.8 million in the year ended December 31, 2013. The increase was primarily due to the higher overall per square meter cost of sales for the properties we sold and delivered in 2014, many of which were located in first and second tier cities.

**Gross profit.** Our gross profit increased by RMB727.8 million, or 35.4%, to RMB2,783.0 million in the year ended December 31, 2014 from RMB2,055.2 million in the year ended December 31, 2013. Our gross profit margin increased slightly to 28.8% in the year ended December 31, 2014 from 28.3% in the year ended December 31, 2013. Higher average selling prices per square meter for the properties we sold and delivered in 2014 were offset by higher average cost of sales per square meter for those properties.

**Fair value gains on investment properties.** Fair value gains on our investment properties increased by RMB68.6 million to RMB599.3 million in the year ended December 31, 2014 from RMB530.7 million in the year ended December 31, 2013.

**Selling and marketing costs.** Our selling and marketing expenses increased by RMB155.2 million, or 64.5%, to RMB395.7 million in the year ended December 31, 2014 from RMB240.5 million in the year ended December 31, 2013. The increase was primarily due to an increase in advertising expenses relating to our projects launched for sale in 2014.

**Administrative expenses.** Our administrative expenses increased by RMB92.2 million, or 15.8%, to RMB676.1 million in the year ended December 31, 2014 from RMB584.0 million in the year ended December 31, 2013. The increase was primarily due to an increase in the number of our management and operational staff as a result of our expanded business operations.

**Other gains and losses — net.** Our other losses — net in the year ended December 31, 2014 was RMB125.0 million, which mainly comprised fair value losses on derivative financial instruments and costs in connection with the early redemption of the 2015 Notes.

**Finance income/(costs) — net.** We incurred finance costs of RMB30.6 million in the year ended December 31, 2014 compared to finance income of RMB121.0 million in the year ended December 31, 2013, primarily as a result of our net foreign exchange losses on our financing activities in 2014. We had significant foreign exchange gains in 2013 as a result of the Renminbi against the U.S. dollar during that year.

**Income tax.** Our income tax expenses decreased by RMB12.0 million, or 1.8% to RMB651.3 million in the year ended December 31, 2014 from RMB663.4 million in the year ended December 31, 2013, due to a decrease in deferred PRC corporate income tax of RMB241.7 million and a decrease in current PRC land appreciation tax of RMB102.4 million.

**Profit for the period.** Our profit for the period increased by RMB107.4 million, or 7.7%, to RMB1,507.6 million in the year ended December 31, 2014 from RMB1400.2 million in the year ended December 31, 2013.

**Non-controlling interests.** Our profit attributable to non-controlling interest in the year ended December 31, 2014 was RMB100.1 million and our loss attributable to non-controlling interest was RMB3.4 million in the year ended December 31, 2013. Such change was primarily due to the increase in fair value gain on investment properties.

Profit attributable to our equity holders decreased by RMB32.7 million, or 2.3%, to RMB1,370.8 million in the year ended December 31, 2014 from RMB1,403.5 million in the year ended December 31, 2013, primarily due to the increase in profit attributable to non-controlling shareholders.

## 2013 Compared to 2012

**Revenue.** Our revenue increased by RMB1,385.1 million, or 23.6%, to RMB7,256.9 million for the year ended December 31, 2013 from RMB5,871.8 million for the year ended December 31, 2012. The increase was primarily attributable to an increase of RMB1,268.1 million in our revenue from sales of properties.

- **Property Development .** Our revenue generated from property development increased by RMB1,268.1 million or 25.5% to RMB6,243.8 million in the year ended December 31, 2013 from RMB4,975.7 million in the year ended December 31, 2012. The increase was primarily due to a 24.5% increase in the average selling price on our delivered properties to RMB7,178 per square meter in the year ended December 31, 2013 from RMB5,765 per square meter in the year ended December 31, 2012. The increase was attributable to the higher selling prices of properties that we completed in 2013. Major projects completed and delivered in the year ended December 31, 2013 with higher selling prices included retail and residential properties at Quanzhou Jinjiang Powerlong Plaza, Shanghai Caolu Powerlong Plaza, Xiamen Powerlong Lakeside Mansions and Hangzhou Xiasha Powerlong Plaza.
- **Property Management Services.** Our revenue generated from property management services increased by RMB164.3 million, or 87.6%, to RMB351.9 million in the year ended December 31, 2013 from RMB187.6 million in the year ended December 31, 2012. The increase was primarily due to the additional management fees that we received for retail properties and residential properties including those at Luoyang Powerlong Plaza, Qingdao Jimo Powerlong Plaza, Quanzhou Jinjiang Powerlong Plaza and Shanghai Caolu Powerlong Plaza.

- **Property Investment.** Our revenue generated from property investment increased by RMB28.4 million, or 8.9%, to RMB349.2 million in the year ended December 31, 2013 from RMB320.8 million in the year ended December 31, 2012. The increase was primarily due to the additional rental income derived from the retail properties in Quanzhou Jinjiang Powerlong Plaza and Shanghai Caolu Powerlong Plaza.
- **Other Property Development Related Services.** Our revenue generated from other property development related services decreased by RMB75.7 million, or 19.5%, to RMB312.0 million in the year ended December 31, 2013 from RMB387.7 million in the year ended December 31, 2012. The reason was mainly due to a result of the adjustment of operating model in certain department stores we operated, among which, hotel income amounted to approximately RMB176 million (2012: RMB175 million), representing an increase of 0.6% as compared to the amount in 2012.

**Cost of sales.** Our cost of sales increased by RMB1,661.7 million, or 46.9%, to RMB5,201.8 million in the year ended December 31, 2013 from RMB3,540.1 million in the year ended December 31, 2012. The increase was primarily due to an increase in per square meter cost of sales in the year ended December 31, 2013 as compared to the same period in 2012, as a result of the completion and delivery of properties in 2013, in particular those in Xiamen Powerlong Lakeside Mansions, Hangzhou Xiasha Powerlong Plaza and Shanghai Caolu Powerlong Plaza, which have relatively higher land and construction costs. To a lesser extent, the increase in our capitalized interest expenses as a result of the increase in our total borrowings for our growing property development business also contributed to the increase in our cost of sales.

**Gross profit.** Our gross profit decreased by RMB276.5 million, or 11.9%, to RMB2,055.2 million in the year ended December 31, 2013 from RMB2,331.7 million in the year ended December 31, 2012. Our gross profit margin decreased to 28.3% in the year ended December 31, 2013 from 39.7% in the year ended December 31, 2012, primarily as a result of the higher costs of sales per square meter of our delivered GFA in the year ended December 31, 2013 as compared to 2012, as well as an increase in the percentage of our revenue derived from our other property development services, including our hotel business, which has a lower gross profit margin than our property development business.

**Fair value gains on investment properties.** Fair value gains on our investment properties decreased significantly by RMB1,213.0 million to RMB530.7 million in the year ended December 31, 2013 from RMB1,743.7 million in the year ended December 31, 2012. The decrease was primarily due to decrease in the total GFA of newly-added investment properties in the year ended December 31, 2013 as compared to 2012.

**Selling and marketing costs.** Our selling and marketing expenses increased by RMB32.2 million, or 15.5%, to RMB240.5 million in the year ended December 31, 2013 from RMB208.3 million in the year ended December 31, 2012. The increase was primarily due to an increase in advertising expenses relating to our projects launched for sale in 2013.

**Administrative expenses.** Our administrative expenses increased by RMB78.7 million, or 15.6%, to RMB584.0 million in the year ended December 31, 2013 from RMB505.3 million in the year ended December 31, 2012. The increase was primarily due to an increase in the number of our management and operational staff as a result of our expanded business operations.

**Other gains and losses — net.** Our other gains — net in the year ended December 31, 2013 was RMB95.4 million, which mainly comprised gains on the disposal of investment properties of RMB54.9 million, interest income from entrusted loans of RMB21.7 million and fair value gain on derivative financial instruments of RMB11.4 million.

**Finance income/(costs) — net.** We incurred finance costs of RMB29.4 million in the year ended December 31, 2012 and recorded finance income of RMB121.0 million in the year ended December 31, 2013, primarily as a result of our net foreign exchange gains on our financing activities increase RMB151.3 million reflecting the appreciation of Renminbi against the U.S. dollar in the year ended December 31, 2013.

**Income tax.** Our income tax expenses decreased by RMB533.9 million, or 44.6%, to RMB663.4 million in the year ended December 31, 2013 from RMB1,197.3 million in the year ended December 31, 2012, due to a decreased in deferred PRC corporate income tax of RMB397.2 million and a decrease in current PRC land appreciation tax of RMB162.8 million as a result of the decreased in our fair value gains on our investment properties in the year ended December 31, 2013.

**Profit for the period.** Our profit for the period decreased by RMB812.8 million, or 36.7%, to RMB1,400.2 million in the year ended December 31, 2013 from RMB2,213.0 million in the year ended December 31, 2012.

**Non-controlling interests.** Our loss attributable to non-controlling interest in the year ended December 31, 2013 was RMB3.4 million and our profit attributable to non-controlling interest was RMB19.1 million in the year ended December 31, 2012. Such change was primarily due to the decrease in fair value gain on investment properties.

Profit attributable to our equity holders decreased by RMB790.4 million, or 36.0%, to RMB1,403.5 million in the year ended December 31, 2013 from RMB2,193.9 million in the year ended December 31, 2012.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for construction costs, land costs (principally the payment of land premium and relocation costs), infrastructure costs, finance costs, as well as to service our indebtedness, and to fund working capital and normal recurring expenses. To date, we have primarily financed our expenditures through internally generated cash flows, proceeds from pre-sale and sale of properties, borrowings from commercial banks and other funds raised from the capital market from time to time. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of sources including proceeds from this offering, the 2016 Notes, the 2018 Notes, the 2017 Notes, project construction loans and mortgage loans, cash provided by operating activities, including the rental, sale and pre-sale of properties, bank loans and additional offerings of equity securities or other capital market instruments.

The following table presents selected cash flow data from our consolidated cash flow statements for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
	(RMB in millions)				
Net cash inflow/(outflow)					
from operating activities . . . . .	(873.3)	(2,138.7)	(1,151.4)	(1,016.8)	3.6
Net cash outflow from investing					
activities . . . . .	(687.8)	(727.3)	(3,826.2)	(1,807.8)	(873.4)
Net cash inflow from financing					
activities . . . . .	1,601.9	5,853.4	4,898.5	2,757.4	874.0
Net (decrease)/increase in cash and					
cash equivalents . . . . .	40.8	2,987.4	(89.1)	(67.2)	4.2
Cash and cash equivalents at the					
beginning of the year/period . . . . .	1,411.2	1,452.2	4,434.4	4,434.4	4,345.8
Effect of foreign exchange rate					
changes.. . . . .	0.2	(5.2)	0.4	0.4	—
Cash and cash equivalents at end of					
the year/period . . . . .	1,452.2	4,434.4	4,345.7	4,367.6	4,350.0

## **Operating Activities**

Our cash inflow from operating activities is generated primarily from proceeds from the sales of our properties, including proceeds from pre-sales of our properties, as well as rental income from our investment properties, income from property management services and other services related to property development. Cash used in our operating activities reflects our investments in our property developments, as well as payments of income taxes and interest.

In the six months ended June 30, 2015, our net cash inflow from operating activities was RMB3.6 million. Our cash inflows in the six months ended June 30, 2015 were principally a result of cash generated from operations of RMB1,299.2 million, including advances from customers derived from presales of properties of RMB8,696.2 million, partially offset by interest paid on our outstanding notes and bank borrowings of RMB835.6 million as well as corporate tax and land appreciation tax.

In 2014, our net cash outflow from operating activities was RMB1,151.4 million. Our cash outflows in 2014 were principally a result of the construction costs incurred in our property development of RMB3,601.0 million, interest paid of RMB1,606.7 million on our outstanding notes and bank and other borrowings as well as corporate income tax and land appreciation tax, partially offset by the advances from customers derived from presales of properties of RMB8,696.2 million, principally contributed from properties in Quanzhou Jinjiang Powerlong Plaza, Xiamen Powerlong Lakeside Mansions, Qingdao Jimo Powerlong Plaza, Shanghai Caolu Powerlong Plaza and Shanghai Hongqiao Powerlong City.

In 2013, our net cash outflow from operating activities was RMB2,138.7 million. Our cash outflows in 2013 were principally a result of the construction costs incurred in our property development of RMB2,836.4 million, interest paid of RMB1,272.9 million on our outstanding notes and bank and other borrowings as well as corporate income tax and land appreciation tax, partially offset by the advances from customers derived from presales of properties of RMB6,734.3 million, principally contributed from properties in Jinjiang Powerlong Plaza, Xiamen Powerlong Lakeside Mansions, Qingdao Jimo Powerlong Plaza, Shanghai Caolu Powerlong Plaza and Shanghai Huaxin Hongqiao Powerlong City.

In 2012, our net cash outflow from operating activities was RMB873.3 million. Our cash outflows in 2012 were principally a result of the construction costs incurred in our property development of RMB3,020.7 million, interest paid of RMB1,111.5 million on our outstanding notes and bank and other borrowings as well as corporate income tax and land appreciation tax, partially offset by cash generated from operations including cash generated from pre-sales of properties of RMB5,748.8 million, principally contributed from properties in Luoyang Powerlong Plaza, Qingdao Jimo Powerlong Plaza, Xinxiang Powerlong Plaza and Anxi Powerlong Plaza.

## **Investing Activities**

Our cash used in investing activities reflects cash outflows relating to the purchases of property and equipment as well as purchases of land use rights and advances made to related parties. Our cash from investing activities reflects primarily proceeds from repayment of cash advances from related parties and disposals of property and equipment.

In the six months ended June 30, 2015, our net cash used in investing activities was RMB873.4 million. Our cash outflows principally comprise payments of construction fees for investment properties of RMB409.9 million and payments for addition of land use rights of RMB73.8 million. Our cash outflows in the six months ended June 30, 2014 were partially offset by the disposal of available for sale financial assets of RMB14.5 million and the proceeds from disposal of a subsidiary of RMB3.8 million.

In 2014, our net cash used in investing activities was RMB3,836.3 million. Our cash outflows principally comprised payments of construction fees for investment properties of RMB2,320.1 million, the purchase of property and equipment of RMB534.7 million, and investment made in jointly controlled entities of RMB429.6 million. The payment of construction costs for investment properties primarily reflected costs incurred in the development of retail properties in Shanghai Caolu Powerlong Plaza, Quanzhou Jinjiang Powerlong Plaza, Zhenjiang Powerlong Plaza and Chongqing Hechuan Powerlong Plaza.

In 2013, our net cash used in investing activities was RMB727.3 million. Our cash outflows principally comprise payments of construction fees for investment properties of RMB962.7 million and the purchase of property and equipment of RMB198.4 million. The payment of construction costs for investment properties primarily reflected costs incurred in the development of retail properties in Shanghai Caolu Powerlong Plaza, Quanzhou Jinjiang Powerlong Plaza, Zhenjiang Powerlong Plaza and Chongqing Hechuan Powerlong Plaza. Our cash outflows in the year ended December 31, 2013 were partially offset by the collection of loans to third parties of RMB270.0 million and the proceeds from disposal of investment properties of RMB132.2 million at Shanghai Caolu Powerlong Plaza.

In 2012, our net cash used in investing activities was RMB687.8 million. Our cash outflows principally comprised payments of construction fees for investment properties of RMB664.3 million, the addition of entrusted loans to third parties of RMB270.0 million, and purchases of property and equipment of RMB96.3 million. The entrusted loans were lent to third parties through a financial institution with an effective interest rate of 7.93%. The payment of construction costs for investment properties primarily reflected costs incurred in the development of retail properties in Jinjiang Powerlong Plaza, Shanghai Caolu Powerlong Plaza and Xinxiang Powerlong Plaza for long-term investment purposes. Our cash outflows in the year ended December 31, 2012 were partially offset by the collection of entrusted loans of RMB270.0 million, proceeds from the disposal of subsidiaries of RMB61.5 million and collection of cash advances made to related parties of RMB40.3 million.

### **Financing Activities**

Our cash from financing activities is mainly generated from bank borrowings, proceeds from the issuance of securities, including our initial public offering, the 2015 Notes, the 2014 Notes, the 2018 Notes, the 2016 Notes and the 2017 Notes, borrowings from third parties and cash advances from related parties. Our cash inflows from financing activities are offset by repayments of bank borrowings, repayments of convertible bonds, secured bonds and secured notes and repayments of cash advances made to related parties.

In the six months ended June 30, 2015, our net cash inflow from financing activities was RMB874.0 million, which was primarily attributable to proceeds from borrowings in the amount of RMB5,327.0 million, partially offset by repayments of borrowings of RMB4,716.4 million.

In 2014, our net cash inflow from financing activities was RMB4,898.5 million, which was primarily attributable to proceeds from borrowings in the amount of RMB9,928.0 million, advances from related parties of RMB1,502.1 million and proceeds from the issuance of the Perpetual Capital Instruments of RMB1,300.0 million, partially offset by repayments of borrowings of RMB7,795.7 million.

In 2013, our net cash inflow from financing activities was RMB5,853.4 million, which was primarily attributable to proceeds from borrowings in the amount of RMB12,347.9 million, partially offset by repayments of borrowings of RMB6,949.4 million.

In 2012, our net cash inflow from financing activities was RMB1,601.9 million, which was primarily attributable to proceeds from borrowings in the amount of RMB5,622.5 million and cash advances from related parties in the amount of RMB351.2 million, partially offset by repayments of borrowings of RMB3,946.4 million distribution of dividends of RMB240.6 million and repayments of cash advances to related parties of RMB122.5 million.



## INDEBTEDNESS, CONTINGENT LIABILITIES AND NET CURRENT LIABILITIES

### Borrowings

As of December 31, 2012, 2013 and 2014 and June 30, 2015, we had the following outstanding borrowings.

	December 31,			June 30,
	2012	2013	2014	2015
	(unaudited)			
	(RMB in millions)			
<b>Borrowings included in non-current liabilities:</b>				
Senior notes	2,882.8	5,188.9	3,871.2	3,880.8
— 2018 Notes	—	1,561.2	1,559.0	1,560.5
— 2017 Notes	—	—	1,514.3	1,519.4
— 2016 Notes	—	797.6	797.9	800.8
— 2015 Notes <sup>(1)</sup>	1,287.3	1,242.4	—	—
— 2014 Notes <sup>(2)</sup>	762.8	733.2	—	—
— Private Placement Notes <sup>(3)</sup>	832.7	814.4	—	—
Bank borrowings	5,025.1	9,511.0	9,905.0	11,878.0
— secured	4,767.8	9,511.0	9,905.0	11,878.0
— unsecured <sup>(4)</sup>	257.4	—	—	—
Other borrowings	1,580.0	455.0	2,245.9	2,180.8
— secured	1,580.0	455.0	2,245.9	2,180.8
Borrowings under sale and lease back agreement — secured	169.7	105.7	36.6	—
Less: amounts due within one year	(1,925.9)	(3,405.8)	(1,764.6)	(3,276.0)
	7,731.8	11,854.7	14,294.0	14,663.6
<b>Borrowings included in current liabilities:</b>				
Bank borrowings	1,155.6	1,094.2	2,267.4	1,465.7
— secured	970.6	1,043.7	2,194.1	1,445.7
— unsecured	185.0	50.5	73,350.0	20.0
Other borrowings	240.8	75.4	258.9	243.8
— secured	185.1	75.4	258.9	243.8
— unsecured	55.7	—	—	—
Current portion of long-term borrowings	1,925.9	3,405.8	1,764.6	3,276.0
	3,322.3	4,575.4	4,290.9	4,985.5
<b>Total borrowings</b>	<b>11,054.0</b>	<b>16,430.2</b>	<b>18,585.0</b>	<b>19,649.1</b>

*Notes:*

- (1) The 2015 Notes were redeemed in full in October 2014.
- (2) The 2014 Notes matured and were repaid on March 17, 2014.
- (3) The Private Placement Notes matured and were repaid on September 8, 2014.
- (4) On June 28, 2013, we repaid all amounts under the US\$47.0 million loan facility agreement dated March 9, 2011 using cash from our operations and proceeds from our 2016 Notes.

Our total outstanding bank and other borrowings and finance lease liabilities amounted to RMB8,171.2 million, RMB11,241.3 million, RMB14,713.9 million and RMB15,768.3 million, respectively, as of December 31, 2012, 2013, 2014 and the six months ended June 30, 2015. The increase in our bank and other borrowings and finance lease liabilities was primarily due to the expansion of our operations and increased funding needs to finance our existing and new property developments. As of December 31, 2012, 2013, 2014 and June 30, 2015, the effective interest rate for our bank and other borrowings and finance lease liabilities was 8.58%, 7.25%, 8.07% and 7.68%, respectively.

Commercial banks and non-bank financial institutions in China typically require guarantees or security interests for our borrowings. As of December 31, 2012, 2013, 2014 and June 30, 2015, RMB7,673.2 million, RMB11,190.8 million, RMB14,640.5 million and RMB15,748.4 million, respectively, of our outstanding borrowings were secured by property and equipment, land use rights, properties under development, completed properties held for sale, investment properties and restricted cash.

The table below sets forth the maturity profiles of our total borrowings included in non-current liabilities as of the dates indicated:

	<u>December 31,</u>			<u>June 30,</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	(unaudited)			
	(RMB in millions)			
<b>Non-current borrowings:</b>				
1–2 years . . . . .	3,818.6	5,641.8	6,813.0	7,135.1
2–5 years . . . . .	3,304.9	4,069.4	5,836.8	6,005.2
Over 5 years . . . . .	608.3	2,143.5	1,644.3	1,523.4
<b>Total . . . . .</b>	<u>7,731.8</u>	<u>11,854.7</u>	<u>14,294.1</u>	<u>14,663.7</u>

As of June 30, 2015, we had total borrowings in an aggregate amount of RMB19,649.1 million, which comprised RMB4,985.5 million included in current liabilities and RMB14,663.6 million included in non-current liabilities.

### Contingent Liabilities

We make arrangements with various PRC banks to provide mortgage facilities to the purchasers of our pre-sold properties. In accordance with market practice, we are required to provide guarantees to these banks in respect of mortgages provided to our customers. Guarantees for mortgages on pre-sold properties are generally discharged at the earlier of:

- the time when the property ownership certificates are submitted to the mortgagee banks; or
- the time when the purchaser pays off the total amount of the mortgage.

If a purchaser defaults on the mortgage loan, we may be required to repurchase the underlying property by paying off the mortgage loan. If we fail to do so, the mortgagee banks will auction the underlying property and recover the balance from us if the outstanding loan amount exceeds the net foreclosure sale proceeds. In line with industry practice, we do not conduct independent credit checks on our customers but rely on the credit checks conducted by the mortgagee banks. As of December 31, 2012, 2013, 2014 and June 30, 2015, the outstanding guarantees for mortgage loans of the purchasers of our properties were equal to approximately RMB3,723.1 million, RMB4,711.0 million, RMB6,462.9 million and RMB7,116.0 million, respectively.

## **Contractual Commitments**

We were contractually committed to spend RMB2,731.7 million as of December 31, 2012, RMB7,525.3 million as of December 31, 2013, RMB6,321.4 million as of December 31, 2014 and RMB5,640.1 million as of June 30, 2015, in each case for operating leases and for our property development expenditures. Our property development expenditures principally comprised costs with respect to obtaining land use rights and construction of projects.

We intend to settle our contractual commitments as construction of our projects progresses.

## **Restricted Cash**

Our restricted cash comprises three components: guarantee deposits for construction of projects, guarantee deposits for paying salaries of employees of construction contractors and guarantee deposits for bank borrowings. As of December 31, 2012, 2013 and 2014 and June 30, 2015, the outstanding amount of our restricted cash was RMB558.0 million, RMB378.5 million, RMB603.7 million and RMB648.0 million, respectively. Guarantee deposits for construction projects are a certain amount of pre-sale proceeds which we are required to place in designated bank accounts as guarantee deposits for construction of related properties. These guarantee deposits can only be used for purchases of construction materials and payments of construction fees for the relevant projects and can only be released after the completion of related pre-sold properties or the issuance of the property ownership certificates. Guarantee deposits for paying salaries of employees of construction contractors are guarantee deposits that are required to be placed with designated banks for paying salaries of employees of construction contractors. Guarantee deposits for bank borrowings are comprised primarily of Renminbi deposits supporting bank letters of credit that are security for Hong Kong dollar-denominated short-term credit facilities.

## **Working Capital**

We centrally manage our working capital to ensure proper and efficient collection and deployment of our funds. We use an annual budget supplemented by quarterly and monthly cash flow rolling projections to control our current cash inflow and outflow. We also use a one to five-year budgeting system to monitor our cash flow, which covers land acquisition, construction cost payment, realization of revenue from properties and financing plans. All disbursements of funds must be approved by the appropriate managers. All idle cash must be accounted for in our efficiency of utilization analysis.

For long-term capital requirements, such as the periodic replenishment of our land reserves, we use a three-year and five-year budgeting system. We carefully consider our cash position and ability to obtain further financing when arranging payment for land reserves and project construction costs. We endeavor to have financing ready before we make significant capital commitments. In relation to our existing amounts due to and due from related parties, we intend to enter into arrangements to offset such payables and receivables and settle any outstanding amounts periodically. We are currently in discussion with certain banks in Hong Kong to increase our offshore credit facilities. Given suitable opportunities, we also intend to work with our bankers to access the capital markets through further equity or equity-linked capital raising or debt-related capital raising.

In addition, we seek to effectively manage our future cash flows and reduce our exposure to unexpected adverse changes in economic conditions through a number of alternative plans, including adjusting our development schedule to ensure that we have available resources to finance our projects, implementing cost control measures, adopting a more flexible approach to pricing our property sales, seeking co-developers to jointly develop certain projects, generating additional cash inflows through disposal of select investment properties at commercially acceptable prices, and renegotiating payment terms with counterparties in certain contractual land acquisition arrangements.

As of December 31, 2012, 2013 and 2014 and June 30, 2015, our aggregate cash and cash equivalents denominated in Renminbi amounted to RMB1,300.1 million, RMB4,250.7 million, RMB4,286.7 million and RMB4,311.5 million, respectively, which would have been subject to PRC foreign exchange controls if any such cash and cash equivalents were to be exchanged into foreign currencies or remitted outside China. As of June 30, 2015, we had available and undrawn bank facilities in the aggregate amount of RMB2,000 million.

## **Off-balance Sheet Commitments and Arrangements**

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

## **MARKET RISKS**

We are, in the normal course of business, exposed to market risks primarily relating to fluctuations in interest rates, commodity prices, foreign exchange rates and the rate of inflation.

### **Interest Rate Risk**

We are exposed to interest rate risks, primarily relating to our borrowings, which totaled RMB11,054.0 million, RMB16,430.2 million, RMB18,585.0 million and RMB19,649.1 million, respectively, as of December 31, 2012, 2013 and 2014 and June 30, 2015. We undertake debt obligations to support our property development and general working capital needs. Upward fluctuations in interest rates increase the cost of our financing. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations. The benchmark one-year lending rate published by the PBOC as of December 31, 2012, 2013, 2014 and June 30, 2015 was 6.00%, 6.00%, 6.00% and 4.85%, respectively.

A fluctuation in interest rates may also affect our prospective purchasers' ability and cost to obtain financing and depress the overall housing demand in China. On September 27, 2007, the PBOC raised the minimum property mortgage loan rates for property mortgages with a term over five years to 7.83%, 27 basis points higher than the previously existing minimum mortgage loan rate. On October 27, 2008, the PBOC reduced the minimum mortgage loan interest rate to 70% of the relevant PBOC benchmark interest rate.

As of June 30, 2015, the relevant PBOC benchmark one-year bank lending interest rate was 4.85% and the minimum property mortgage loan interest rate for property mortgages with a term over five years was 6.55%.

### **Commodity Risk**

We are exposed to fluctuations in the prices of raw materials for our property development, primarily steel and cement. We purchase most of our supplies of steel and cement at market prices. We provide these key raw materials to our construction contractors, and such purchase costs are generally accounted for as part of the contractor fees pursuant to our arrangements with our contractors. Accordingly, rising prices for construction materials will affect our construction costs in the form of increased fee quotes by our construction contractors and suppliers. As a result, fluctuations in the prices of our construction materials have a significant impact on our results of operations. In order to mitigate the impact and risk of price fluctuations relating to our key raw materials, we have endeavored to negotiate volume-discount prices for our key raw materials, but such measures have limited utility in reducing the commodity risks we face in our operations.

### **Foreign Exchange Risk**

Substantially all of our revenue, expenses, cash and deposits are denominated in Renminbi. Our exposure to foreign exchange rate fluctuations results primarily from our foreign currency-denominated indebtedness and our cash and cash equivalents denominated in foreign currencies. To service our foreign currency denominated indebtedness, we have to convert Renminbi into the relevant foreign currencies. A depreciation of the Renminbi would require us to use more Renminbi funds to service the same amount of foreign currency debt. As of June 30, 2015, we had Hong Kong dollar-denominated debt totaling RMB750.5 million and U.S. dollar denominated debt totaling RMB5,505.3 million, representing primarily amounts under certain term loans. As of the same date, we had aggregate cash and cash equivalents denominated in Hong Kong dollars of RMB30.1 million and in U.S. dollar of RMB8.3 million.

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

Fluctuations in the foreign exchange rate have had and will continue to have an impact on our business, financial condition and results of operations. See “Risk Factors — Risks Relating to the Notes — We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar.” We currently do not hedge our foreign exchange risk but may do so in the future.

### **Inflation**

China has not experienced significant inflation or deflation in recent years. According to the National Bureau of Statistics of China, China’s overall national inflation rate, as measured by the general consumer price index, was approximately 5.4% in 2011, 2.6% in 2012 and 2.6% in 2013. Inflation in the past did not materially affect our business. Deflation could negatively affect our business as it might be a disincentive for prospective property purchasers to make a purchase.

### **Non-GAAP Financial Measures**

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

- interest income, finance cost/income;
- amortization;
- other losses/gains, net;
- income tax expenses;
- depreciation;
- share of post-tax profit/loss of a joint venture; and
- share of post-tax profit/loss of an associate.

EBITDA is not a standard measure under either HKFRS. As the property development business is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit for the year of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector. As a measure of our operating performance, we believe that the most directly comparable HKFRS measure to EBITDA is profit for the year. We operate in a capital intensive industry. We use EBITDA in addition to profit for the year because profit for the year includes many accounting items associated with capital expenditures, such as depreciation and amortization, as well as non-operating items, such as other losses/gains, net, interest income, finance costs/income. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, amortization, other losses/gains, net, interest income, finance costs/income and other non-operating expenses/income, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies’ results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit for the year under HKFRS to our definitions of EBITDA and EBITDA margin for the years/period indicated.

	<b>Year ended December 31,</b>			<b>Six months ended June 30,</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<b>(RMB in thousands)</b>			
<b>Profit for the year/period</b> . . . . .	2,212,986	1,400,176	1,507,594	1,143,494
<b>Adjustments:</b>				
Interest income including interest income on entrusted loan . . . . .	(51,463)	(78,372)	(31,566)	(19,021)
Finance (income)/costs . . . . .	29,389	(121,023)	30,606	(2,587)
Other (gains)/losses excluding interest income on entrusted loan . . . . .	76,334	(18,790)	135,877	(13,010)
Share of profit of investments accounted for using the equity method . . . . .	(134,079)	(108,365)	709	(41,799)
Exchange losses/(gains), net . . . . .	(248)	22,543	(4,721)	(5,139)
Income tax expense . . . . .	1,197,312	663,414	651,340	585,537
Depreciation . . . . .	113,422	110,451	132,665	65,742
Amortization of land use rights . . . . .	17,160	13,863	15,846	9,095
<b>EBITDA</b> . . . . .	<u>3,460,813</u>	<u>1,883,897</u>	<u>2,438,350</u>	<u>1,722,312</u>
EBITDA margin . . . . .	<u>59%</u>	<u>26%</u>	<u>25%</u>	<u>36%</u>

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year or as an indicator of operating performance or any other standard measure under HKFRS. Our definition of EBITDA does not account for income tax expense, interest income, other losses/gains, net, depreciation, amortization, finance costs/income and share of profit/loss of investments accounted for using equity method. Our EBITDA measures may not be comparable to similarly titled measures used by other companies. EBITDA margin is calculated by dividing EBITDA by revenue for the relevant years, expressed as a percentage.

## INDUSTRY OVERVIEW

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

### CHINA OVERALL

The PRC economy has grown significantly since the PRC government introduced economic reforms in 1978. China's accession to the World Trade Organization in 2001 has further accelerated the reform of the PRC economy. China's nominal GDP increased at a CAGR of approximately 15.7% from approximately RMB21,631.4 billion in 2006 to approximately RMB51,932.2 billion in 2012, making China one of the fastest growing economies in the world.

During each of the years from 2005 to 2007, China's real GDP recorded double-digit growth. In 2008, the global economic crisis caused a slowdown in the global capital and credit markets as well as the world economy, which in turn adversely affected the domestic market in China, including our target cities. In 2008, China's real GDP growth declined significantly to 9.6% compared to 14.2% in 2007. In view of the negative impact of the global economic crisis on the PRC economy, the PRC government launched a RMB4 trillion economic stimulus plan in November 2008. Since the inception of the economic stimulus plan, the PRC stock market showed signs of recovery. The economic stimulus plan has had a positive impact on domestic consumption and demand in the PRC until the global economic slowdown affected China's economic growth in 2012. According to the National Bureau of Statistics of China, the rate of China's real GDP growth grew to 10.4% in 2010 from 9.2% in 2009 before slowing again to 9.3% in 2011 and further to 7.8% in 2012.

### REGULATORY DEVELOPMENT OF REAL ESTATE MARKETS IN CHINA

Since 2004, in an effort to reduce the growth rate of China's economy and achieve balanced and sustainable economic growth, the PRC government has taken measures to control money supply, credit availability and fixed assets investment. The PRC government has also taken measures to discourage speculation in the residential property market and to increase the supply of affordable housing.

In April 2005, the Ministry of Construction and other relevant Chinese government authorities jointly issued the Opinions on Stabilizing Housing Prices (關於做好穩定住房價格工作的意見) followed by a set of new measures.

In May 2006, the Ministry of Construction, the NDRC, the PBOC and other relevant PRC government authorities jointly issued the Opinions on Adjusting the Housing Supply Structure and Stabilizing the Housing Prices (關於調整住房供應結構穩定住房價格的意見). The opinions reiterated the existing measures and introduced new measures intended to further curtail rapid increases in property prices in large cities and to promote the healthy development of the PRC property market.

In May 2006, the Ministry of Land and Resources issued the Urgent Notice on Further Tightening Land Administration (關於當前進一步從嚴土地管理的緊急通知). Under this notice, local governments are required (1) to adhere to their annual overall land use planning and land supply plans and tighten the control on land supply for non-agricultural use, (2) to suspend the supply of land for new villa projects to ensure adequate supply of land for more affordable housing and to strictly enforce the regulations regarding penalties on and forfeiture of idle land, and (3) to conduct thorough investigations on illegal use of land and submit a report on such investigations to it by the end of October 2006.

In July 2006, the Ministry of Construction, the MOFCOM, the NDRC, the PBOC, the SAIC and the SAFE jointly promulgated the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Property Market (關於規範房地產市場外資准入和管理的意見).

In December 2006, SAT issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (關於房地產開發企業土地增值稅清算管理有關問題的通知) with effect from February 1, 2007. This notice regulates, among others, (1) the conditions under which LAT must be settled; (2) the methods in which taxable gains are computed; (3) identifying items which are allowable deductible costs; (4) time frame for settlement of the LAT, and (5) requirements for filing of

documents. The purpose of the Notice was to regulate the settlement of LAT by property development enterprises more stringently. Pursuant to this notice, effective February 1, 2007, a real property developer must settle the relevant LAT payment of its property development projects with the tax authorities in accordance with the applicable LAT tax rates. LAT must be paid if a project meets any of the following requirements: (1) the property development project has been completed and sold out; (2) the entire uncompleted and unsettled development project is transferred; or (3) the land-use rights of the relevant project are transferred.

In May 2007, the MOFCOM and the SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision of 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).

In July 2007, the SAFE issued the Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment that Have Property 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項目名單的通知) indicating that it would not process for foreign investment enterprises in the real estate sector any foreign debt registration or conversion of foreign debt that was approved by the local MOFCOM and filed with the MOFCOM after June 1, 2007. As PRC companies cannot repay any loans or interest associated therewith, under the PRC foreign exchange control system, to persons outside the PRC without registering the foreign debt with the SAFE, this notice effectively prohibits our ability to fund our PRC subsidiaries in the form of loans. Therefore, the proceeds of this offering that will be used for land acquisition and development in China can only be transferred to our PRC subsidiaries as equity investments and not as loans. See the section entitled “Risk Factors — Risks Relating to China — Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations.”

On September 27, 2007, the PBOC and the CBRC promulgated the Circular on Strengthening the Administration of Commercial Real-estate Credit Loans (關於加強商業性房地產信貸管理的通知), which further tightened mortgage lending practice for commodity properties.

The circular emphasizes that commercial banks must not offer loans to property developers which have been verified by land and resource and construction authorities to hoard land and buildings. In addition, commercial banks are banned from offering loans to projects that have less than 35% of the necessary capital funds (proprietary interests), or that fail to obtain land use rights certificates, construction land planning permits, construction works planning permits and construction works commencement permits. Commercial banks are also prohibited from accepting commercial properties that have been vacant for more than three years as security for any loans. In principle, property development loans provided by commercial banks should only be used for the projects in the areas where the commercial banks are located. Otherwise, commercial banks should carry out effective risk control measures and make filings with the PRC supervisory authorities before disbursement of the loans.

On December 5, 2007, the PBOC and the CBRC jointly issued the Supplemental Circular on Strengthening the Administration of Commercial Real-estate Credit Loans (關於加強商業性房地產信貸管理的補充通知), which clarifies that the terms of property mortgage loans should be calculated on a family basis, including the borrower, his spouse and minor child.

On January 3, 2008, the State Council issued the Notice on Promoting Economizing Land Use (關於促進節約集約用地的通知) with respect to the collection of additional land premiums, establishment of a land utilization priority planning scheme and the formulation of a system for assessing the optimal use of land and other measures. The notice urges the full and effective use of existing construction land and the preservation of farming land. The notice emphasizes the enforcement of the current rules on idle land fee for any land left idle for over one year but less than two years, with such idle land fee charged at 20% of the land premium. The notice also establishes an additional land premium surcharges on idle land and authorizes the Ministry of Land and Resources to formulate regulations to implement such surcharges. The notice further urges financial institutions to exercise caution when processing loan applications from property developers that have failed (i) to commence construction; (ii) to complete development of at least one-third of the land area; or (iii) to invest at least 25% of the total investment within one year of the construction date provided in the land grant contract. The notice states that the relevant governmental authorities will formulate and issue further rules and regulations on such requirements.



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

On July 29, 2008, the PBOC and the CBRC jointly issued the Notice on Promoting Economic Use of Land through Finance (關於金融促進節約集約用地的通知). The Notice emphasizes that the financial institutions should tighten the management of loans for certain projects, including construction projects, municipal infrastructures and industrial land use projects, rural collective construction land use projects, and should tighten the management of credit for commercial real estate. The commercial banks are prohibited from granting loans to the property developers for payment of land premium and to the property projects.

On May 25, 2009, the State Council issued the Notice on Adjusting the Percentage of Capital Fund for Investment Projects in Fixed Assets (國務院關於調整固定資產投資項目資本金比例的通知), pursuant to which, the minimum capital ratio of ordinary commodity housing projects and social security housing projects has been reduced to 20%, while that for other real estate projects has been decreased to 30%.

On September 21, 2010, the Ministry of Land and Resources and MOHURD jointly promulgated the Notice of Further Strengthening Control and Regulation of Land and Construction of Property Development (關於進一步加強房地產用地和建設管理調控的通知).

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

On January 26, 2011, the State Council issued the Notice on Further Adjustment and Control of Property Markets (《關於進一步做好房地產市場調控工作有關問題的通知》).

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

In May 2012, the Ministry of Land and Resources issued a Circular on the Distribution of the Catalogue for Restricted Land Use Projects (2012 Version) and the Catalogue for Prohibited Land Use Projects (2012 Version) (關於印發《限制用地項目目錄(2012年本)》和《禁止用地項目目錄(2012年本)》的通知), as a supplement to its 2006 version. In this Circular, the Ministry of Land and Resources has set forth a ceiling for the land granted by local governments for development of commodity housing of 7 hectares for small cities and towns, 14 hectares for medium-sized cities and 20 hectares for large cities.

On July 19, 2012, the Ministry of Land and Resources and MOHURD jointly issued the Urgent Notice to Further Tighten Up Real Property Land Administration and Consolidate the Achievement of Macroeconomic Control of the Real Property Market (《關於進一步嚴格房地產用地管理鞏固房地產市場調控成果的緊急通知》) to strengthen the enforcement of macroeconomic policy in the real property market. Local governments must secure the supply of residential land, especially land used for development of government-subsidized residential units. Local governments must strictly implement the macroeconomic control policies for the real property market. Residential construction projects must commence within one year from the land title delivery date which is stipulated in the land allocation decision or land grant contract, and must be completed within three years from the date of commencement.

On February 26, 2013, the General Office of the State Council announced the Notice on Continuing to Improve the Regulation and Control of the Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知), which among others, provides the following requirements: (i) improve the mechanism of work responsibility of stability of the real estate price by measures including requiring the relevant departments under the State Council to strengthen the supervision and inspection of the stability of prices; the provincial people's government shall conduct interviews if local governments in its jurisdiction fail to implement housing purchase restrictions; (ii) limitations on the purchase of commodity properties must be strictly implemented, and the scope of such limitations must cover all newly constructed commodity properties and second-hand properties located within the entire administrative area of the city in question; (iii) for those cities with excessive growth in housing prices, the local counterparts of the PBOC may further increase down payment ratios and interest rates for loans to purchase second properties in accordance with the price control policies and targets of the corresponding local governments; (iv) the gains generated from the sale of a self-owned property shall be subject to individual income tax at a rate of 20%, if the original value of such property can be verified through historical information such as tax filings and property registration; (v) increase the land supply for residential commercial properties; the total land supply for residential land in 2013 in principle shall be no less than the average land supply in the past five years; (vi) accelerate the planning and construction of affordable housing project; the task is to complete construction of 4.7 million units and commence new construction of 6.3 million sets of affordable housing projects in 2013; and (vii) improve the market supervision and anticipation management by strengthening the administration on the credibility of real estate development enterprises and studying the establishment of shared credit management system among housing and urban construction, development and reform, land and natural resources, finance, taxation, industry and commerce, statistics and other departmental, timely records, released the illegal behaviour of the real estate enterprises; if real estate enterprises conduct activities to have idle land, land speculation, keep the properties out of markets, drive up prices and other illegal acts, the relevant departments shall establish a linkage mechanism and intensify punishment. The land and resources department shall prohibit such enterprise from participating in land bidding, the banking financial institutions shall not grant new loans for development projects, the securities regulatory authorities shall suspend the approval of its listing, refinancing or significant asset restructuring and the banking supervision departments shall prohibit the enterprises from financing through trust scheme, etc.

On September 30, 2014, PBOC and CBRC jointly issued the Notice on Further Improving Financial Services for Real Estate Sector (關於進一步做好住房金融服務工作的通知).

On March 30, 2015, the PBOC, CBRC and MOHURD jointly issued the Notice on Relevant Issues Concerning the Individual Housing Loan Policy (關於個人住房貸款政策有關問題的通知).

On August 27, 2015, the CBRC, the Ministry of Finance and PBOC jointly issued the Notice on Adjusting the Minimum Down Payment Concerning the Housing Individual Housing Reserve Loan (關於調整住房公積金個人住房貸款購房最低首付款比例的通知).

For additional information on measures affecting the PRC real estate market, please see "Regulations."

From 2006 to 2012, according to the National Bureau of Statistics of China, China's urbanization rate (i.e. the proportion of population residing in urban areas) increased from 44.3% to 52.6%, and the urban population increased from 583 million to 712 million during the same period, representing a CAGR of 3.4%.

## **REAL ESTATE REFORM**

Growth of the property market has been promoted and made possible by a series of reforms in the PRC real estate industry, which commenced in the 1990s. Prior to the housing reform in 1998, real estate development in China was an integral part of the country's planned economy with the PRC government developing and supplying housing for its urban population under a welfare system. The state-allocated housing policy was abolished in 1998, creating a market-based system for property transactions. Individuals were subsequently encouraged to purchase their own properties with mortgage financing, hence bolstering the growth of the property market. At the same time, the PRC government implements policies affecting the development of the real estate market, such as those relating to land supply, land grant process, building code, mortgage interest rate, down payment rate, etc. Therefore, government regulations and policies play an important role in the PRC's property market. For a discussion of key real estate reforms and changes in PRC government policies, see "Regulation." A brief timeline of key property reforms and government regulations and policies is set out below.

1998 . . . . .	The PRC government abolished its state-allocated housing policy.
1999 . . . . .	The PRC government extended the maximum mortgage term to 30 years. The PRC government increased the maximum mortgage financing from 70% to 80%. The PRC government formalized procedures for the sale of property in the secondary market.
2000 . . . . .	The PRC government issued regulations to standardize the quality of construction projects, establishing a framework for administering construction quality.
2001 . . . . .	The PRC government issued regulations relating to the sales of commodity properties.
2002 . . . . .	The PRC government promulgated the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-For-Sale. The PRC government eliminated the dual system for domestic and overseas property buyers in China.
2003 . . . . .	The PRC government promulgated rules for more stringent administration of property loans with a view to reducing the credit and systemic risks associated with such loans. The State Council issued a notice for sustainable and healthy development of the property market.
2004 . . . . .	The State Council issued a notice requiring that, with respect to property development projects (excluding ordinary standard residential houses), the proportion of capital funds should be increased from 20% to 35%. The Ministry of Construction (“MOC”), renamed as the Ministry of Housing and Urban-Rural Development (“MOHURD”) in 2008, amended Administrative Measures on the Presale of Commercial Housing in Cities. CBRC issued the Guideline for Commercial Banks on Risks of Real Estate Loans to further strengthen the risk management of commercial banks on property loans.
2005 . . . . .	The PRC government instituted additional measures to discourage speculation in certain regional markets including increasing the minimum required down payment to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% for sales within two years of purchase, and prohibiting reselling unfinished properties before they are completed.
2006 to mid-2008 . . . . .	The PRC government implemented additional land supply, bank financing, foreign investment and other measures to curtail rapid increases in property prices, to encourage the development of middle- to low-end housing and to promote healthy development of the PRC property industry.
Mid-2008 to third quarter of 2009 . . . . .	The PRC government implemented a number of measures to combat the global economic slowdown. These measures include the lowering of the PBOC benchmark bank lending rates, the internal capital ratio for property projects and the down payment requirements for purchasing ordinary residential properties.
Fourth quarter of 2009 . . . . .	The PRC government adjusted some of its policies in order to enhance regulation in the property market, to restrain property purchases for investment or speculation purposes and to keep property prices from rising too quickly in certain cities, including abolishing certain preferential treatment relating to business tax payable upon transfers of residential properties.

- 2010 . . . . . The PRC government issued a number of measures and policies to curtail the overheating of the property market. These measures and policies include increasing the down payment and the loan interest rates for properties purchased with mortgage loans, imposing more stringent requirements on the payment of land premiums, suspending grants of mortgage loans to nonresidents who cannot provide any proof of local tax or social insurance payment for more than one year, abolishing certain preferential tax treatment and limiting the number of residential properties one household can purchase in certain areas.
- 2011 to 2012 . . . . . The PRC government issued the notices to further regulate the property market, including raising minimum down payment for second house purchasers, abolishing the business tax preferential treatment on transfer of ordinary residential properties within five years, imposing more stringent fines on idle land and further limiting the number of residential properties one household can purchase.
- The PRC government continued to implement selected policies aimed at further cooling the real estate property market. The NDRC announced in February 2012 that the government intended to limit mortgage loans for home purchases by foreigners to reduce overseas investment in the local property market. However, the PRC government reiterated its support for first-time homebuyers, including the construction of affordable housing and the offer of differentiated loans by China’s four biggest state-owned banks to first-time homebuyers and to fund affordable housing projects.
- 2013 . . . . . On February 26, 2013, the State Council issued the Notice on Continuing Adjustment and Control of Property Markets (關於繼續做好房地產市場調控工作的通知) which requires, among other restrictive measures:
- (i) improving the responsibility system for stabilizing housing prices. Municipalities directly under the central government, cities listed on state plans and provincial capitals (excluding Lhasa) must set an annual objective for controlling housing prices and publish annually a new commodity housing price control target in the first quarter of the year;
  - (ii) firmly restraining purchases of residential housing for investment and speculation purposes; and
  - (iii) expanding ordinary commodity housing units and increasing the supply of land. On July 19, 2013, the PBOC announced a few measures to further liberalize China’s lending interest rates effective from July 20, 2013. The most important measure is the removal of the lending rate floor, which was 30% below the benchmark rates. However, the floor on the benchmark mortgage rate will remain to curb speculative demand in the property market and maintain stable and healthy development of the market.

2014: . . . . . To support the demand of buyers of property for residential purposes and to promote the sustainable development of the real estate market, PBOC and CBRC jointly issued a notice in September 2014, which provides where a family that owns a residential property and has paid off its existing mortgage loan applies for a new mortgage loan to buy another residential property to improve living conditions, the bank may apply the first-time housing purchase mortgage loan policy. In cities that have lifted housing purchase restrictions on residents or those that have not imposed such restrictions, when a family that owns two residential properties or more and has paid off all the existing mortgage loans applies for a new mortgage loan to buy another residential property, the bank is required to assess the credit profile of the borrower, taking into consideration the solvency, credit standing of the borrower and other factors, and decide the down payment ratio and loan interest rate. In view of the local urbanization plan, banks may provide mortgage loans to non-local residents that meet the conditions required by the related policies.

Since August 2014, most of the local governments have issued their respective measures to lift the housing purchase restrictions.

2015: . . . . . In March 2015, the PBOC, CBRC and MOHURD jointly issued a notice to lower the minimum down payment to 40% for the family that owns a residential property and has not paid off its existing mortgage loan applying for a new mortgage loan to purchase another ordinary residential property to improve living conditions and allow the bank at its own discretion to decide the down payment ratio and loan interest rate taking into consideration the solvency and credit standing of the borrower.

Furthermore, according to a notice jointly issued by SAT and MOFCOM, effective from March 31, 2015, a business tax is levied on the entire sales proceeds from resale of properties if the holding period is shorter than two years, and if the holding period is more than two years, business tax for transfer of ordinary residences will not be imposed, whereas for the transfer of non-ordinary residences business tax shall be paid on the basis of price difference between the transfer income and the purchase cost.

In August, 2015, the CBRC, the Ministry of Finance and PBOC jointly issued a notice to lower the minimum down payment to 20% for the family that owns a residential property and has paid off its existing mortgage loan applies for a second housing reserve loan to buy another residential property to improve living conditions. In Beijing, Shanghai, Guangzhou and Shenzhen, the minimum down payment of applying for housing reserve loan to buy a second residential property can be decided by local government in combination with local reality.

**THE PRC REAL ESTATE MARKET INDUSTRY OVERVIEW**

*Demand, Supply and Price*

With the exception of 2008, demand for properties in China has increased significantly in recent years amid a favorable economic environment characterized by continued growth in per capita disposable income and rising living standards. The aggregate GFA of commodity properties sold increased from approximately 619 million sq.m. in 2006 to approximately 1,113 million sq.m. in 2012, representing a CAGR of 10.3%. Meanwhile, driven by favorable market conditions and potential returns, investments in real estate development in the PRC grew rapidly from approximately RMB1,942 billion in 2006 to approximately RMB7,180 billion in 2012, representing a CAGR of 24.4%.

Property demand began to weaken in certain parts of China in the first half of 2008, and the situation deteriorated substantially in the second half of 2008 primarily because China’s economy was negatively affected by the global economic crisis and consumer confidence in China declined significantly. Nonetheless, in 2009, China’s property market rebounded in terms of both aggregate GFA and average

price of commodity properties sold. Compared to 2011, the total sales of commodity properties in China increased by 10.0% to RMB6,444 billion in 2012 and the average price of commodity properties sold increased by 8.1% to RMB5,791 per sq.m. in 2012. Beginning in late 2009, the PRC government introduced a series of austerity measures in view of increasing concerns about the overheating of the property sector. As a result, China's property market showed a general slowdown in growth beginning in the second quarter of 2010. According to the National Bureau of Statistics of China, the annual growth of aggregate GFA of commodity properties sold in 2012 was 1.7%, compared to 4.4% in 2011, and the annual growth of average selling price per sq.m. of commodity properties sold in 2012 was 8.1%, compared to 6.5% in 2011.

In 2012, the property sector continues to slow down as a result of continued austerity measures, such as purchase restriction policies, imposed by local governments.

## **FUZHOU**

Fuzhou, the capital city of Fujian Province, is located on the south-east coast of China. Fuzhou is the political, economic and cultural center of Fujian Province, and is also an important port for China. It is one of China's largest cities, which is in close proximity to Taiwan. It consists of two sub-cities, six counties and five districts including Taijiang, Gulou, Cangshan, Mawei and Jin'an. Fuzhou covers a total land area of approximately 1,043 square kilometers and had a total registered population of approximately 6.55 million at the end of 2012.

Under the 11th Five-Year Plan, the Fuzhou government aims to strengthen its industrial sector. Textile, electronics, automobile and component manufacturing are expected to form the pillar industries of Fuzhou. At the same time, the local government aims to increase the contribution by the services sector to Fuzhou's economy. The key growth engines are expected to be logistics, commerce, real estate, tourism and finance.

## **QINGDAO**

A sub-provincial city, Qingdao is located in the southern part of the Shandong Peninsula in Shandong Province. Qingdao's jurisdiction covers seven districts including Shinan, Shibei, Sifang, Licang, Laoshan, Chengyang and Huangdao and five county-level cities including Jiaozhou, Jiaonan, Jimo, Pingdu and Laixi. The urban areas of Qingdao are largely concentrated in the eastern side of Jiaozhu Bay near Laoshan, a well-known mountain in China and a popular tourist destination. A traditional port city, Qingdao lies on China's eastern coast overlooking the Yellow Sea. Across the sea and to the east is the Korean Peninsula. The city occupies a total area of approximately 10,654 square kilometers. Qingdao is one of the most important economic centers in the Bohai Rim in northern China and was the host city for the 2008 Olympic Sailing Regatta.

The economy and the total registered population of Qingdao grew simultaneously. The registered population of Qingdao steadily increased by more than 0.49 million between 2003 and 2012, representing a growth of approximately 6.8%. The city had a total registered population of 7.70 million as of the end of 2012.

## **ZHENGZHOU**

Zhengzhou, located south of the Yellow River, is the provincial capital of Henan Province. It functions as the commercial, cultural and political center of the province. Zhengzhou is bordered by Luoyang to the west, Xuchang to the southeast and Pingdingshan to the southwest, Kaifeng to the east, Jiaozuo to the northwest and Xinxiang to the northeast. It covers a total area of approximately 7,446 square kilometers and comprises six urban districts, five county-level cities and one county with a total resident population of approximately 9.0 million as of the end of 2012.

Geographically located in the center of China, Zhengzhou is a major railway junction between the Longhai railway (east-west) and Beijing-Guangzhou railway (north-south). It is also an important city in the Eurasian Continental Bridge.

Over the past few years, the strong growth in Zhengzhou's economy has mainly been driven by its key industries, which include automotive manufacturing, energy, aluminum manufacturing and food processing.

## **TAICANG**

Taicang is a county level city comprising of seven towns and an economic development zone. It is under the jurisdiction of Suzhou Prefecture City and has its municipal government in the township of Chengxiang. Growth in Taicang's economy and population in recent years has increased housing demand in the city.

Located in the southeast of Jiangsu Province near where the Yangtze River meets the Yellow Sea, Taicang covers a total land area of about 823 square kilometers. The city has historically been an important port for the Yangtze River Region.

Taicang's economy is traditionally based on agriculture. However, the economy moved away from agriculture and towards industrial manufacturing due to rapid industrialization of the Yangtze River Delta over the past two decades. As a result, the contribution of agriculture towards the economy has gradually decreased to account for just 6.0% of the city's nominal GDP in 2012.

## **WUXI**

Located in the eastern part of Jiangsu Province between Shanghai and Nanjing, Wuxi is a major city of Jiangsu Province. It covers a total land area of approximately 4,627 square kilometers and had a registered population of approximately 4.7 million as of the end of 2012.

Wuxi consists of nine county-level divisions, seven of which are urban districts and the remaining two are county-level cities. The urban districts are Chong'an, Nanchang, Binhu, Wuxi New District, Beitang, Huishan and Xishan. Jiangyin City and Yixing City are designated as county-level cities.

There are five key industries in Wuxi, including information technology, machinery production, automobile parts, textiles and new materials. Wuxi is one of the major manufacturing bases in the Yangtze River Delta region. The government of Wuxi continues to strengthen the five pillar industries, in accordance with the city's 11th Five-Year Plan.

## **TAI'AN**

Tai'an is a major city in Shandong Province, geographically located in the central area of the province. It covers a total area of about 7,762 square kilometers and had a registered population of about 5.53 million at the end of 2012. With nearby Mount Tai being a popular tourist destination in China, the tourism industry plays an important role in the economic development in Tai'an.

There are currently no major infrastructure projects being planned specifically within the eastern town sub-market. However, with the launching of the new high-speed rail in 2012 making Tai'an within hours of Beijing and Shanghai, the local government is in the preliminary planning stages of refurbishing tourist amenities and public facilities and upgrading the city's transit system.

## **LUOYANG**

The city of Luoyang is situated on the Central Plain of China in the western part of Henan Province. It is a prefecture level city and has jurisdiction over six districts (Jianxi, Xigong, Laocheng, Chanhe, Luolong and Jili), one county-level city (Yanshi) and eight counties. To its east lies the provincial capital of Zhengzhou, to the south lies Nanyang, to the west lies Sanmenxia and to its north lies Jiyuan. The city covers a total area of about 15,208 square kilometers and has a registered population of over 6.89 million as of the end of 2012. Having served as the Chinese capital for no less than thirteen dynasties, the city is rich in culture and is recognized as being one of the cradles of Chinese civilization.

The 11th Five-year plan of Luoyang sets out objectives of economic development for the city. Luoyang is also expected to continue to enhance its strength in the manufacturing and tourism industries. The government's ambition is to not only build Luoyang into a modern industrial city but also into one of the most livable cities in Central and Western China.

## **BENGBU**

Bengbu is located in the north of Anhui Province. It lies 135 kilometers north of Nanjing and is situated along the Huaihe River. It covers a total land area of about 5,952 square kilometers and had a registered

population of about 3.68 million at the end of 2012. Bengbu is 131 kilometers from the Anhui capital of Hefei, 979 kilometers from Beijing and 485 kilometers from Shanghai.

According to the city's 11th Five-Year Plan, over the next few years, Bengbu will continue to develop its industrial sector and maximize its proximity to the Huaihe basin to strengthen its position as a major transportation hub.

## **HAIYANG**

Haiyang is a county-level city under the jurisdiction of Yantai, a prefecture-level city located in north-eastern Shandong. Situated on the coast to the south of Yantai's city center, Haiyang overlooks the Yellow Sea, with the Korean peninsula across the sea to its east and Qingdao to its south. Haiyang is about 100 kilometers away from both Yantai and Qingdao.

Haiyang covers a total area of about 1,887 square kilometers. Haiyang had a registered population of 0.66 million as at the end of 2012. Haiyang consists of three development zones (Economic Development Zone, Fengcheng Touring Holiday Area and Greencity Industrial Park) along with three street communities (街道辦事處) (Dongcun, Fangyuan and Fengcheng) and eleven towns.

## **SUQIAN**

Suqian is a prefecture-level city located in northern Jiangsu Province. It is about 250 kilometers away from Nanjing, the capital city of Jiangsu Province. To the west of Suqian is Anhui Province, Xuzhou lies to its northwest, Lianyungang to its northeast and Huai'an to its south. Suqian covers a land area of over 8,500 square kilometers. It administrates two districts and three counties; namely Sucheng District, Suyu District, Shuyang County, Siyang County and Sihong County. The city had a total registered population of 5.6 million at the end of 2012, with 2.8 million residents living in urban areas.

The pillar industries of Suqian include machinery production, electronics, metal smelting and pressing, textile, food and beverage, wood processing and chemical and pharmaceutical. In 2008, Suqian had 86 enterprises with annual revenue of RMB100 million and above.

According to the 11th Five-Year Plan for Suqian, the local government will develop Suqian into a modern city by accelerating its urbanization process and improving the living standard of its residents.

## **XINXIANG**

Xinxiang is a prefecture-level city located in the northern part of Henan Province and to the north-east of Zhengzhou, which is the provincial capital. Xinxiang comprises four districts, two county-level towns and six counties. It covers a total area of about 8,169 square kilometers, including a city area of about 425 square kilometers.

Xinxiang is a transportation hub, with access to Tianjin to its northeast and the adjacent provinces of Hebei, Shandong, Shanxi and Shaanxi. The city is also the junction point for major east-west and north-south railway lines.

Being an economic center and transportation hub of northern Henan Province, Xinxiang is one of central China's key manufacturing and agriculture production bases. Pillar industries in Xinxiang include bio-medical companies, automotive parts manufacturing, equipment manufacturing, food processing and fine chemicals manufacturing. Key enterprises which have established headquarters in Xinxiang include Frestech Refrigerator, Golden Dragon Copper Group, Bailu Chemical Fibre, and Henan Kelong Group.

## **YANCHENG**

Yancheng is a coastal city on China's eastern seaboard located in Jiangsu Province. To the south of Yancheng lies Nantong, which is separated from Suzhou and Shanghai by the Yangtze River. To its north is Lianyungang, an important port in eastern China where the Longhai Railway starts, connecting China to Europe.

Covering an area of approximately 15,000 square kilometers, Yancheng includes Yandu District, Tinghu District and seven county-level divisions. Tinghu District is the city's traditional residential and retail



area while Yandu District in the city's south, encompasses the new city development zone. By the end of 2012, Yancheng's registered population had reached 8.2 million, with 4.7 million residents living in the urban area.

In 2012, Yancheng's nominal GDP reached RMB312.0 billion. The Yancheng economy is largely focused around the automotive and textiles industries. Dongfen-Yueda-Kia Automobile is a well-known enterprise in the city.

By the end of 2012, Yancheng's per capita nominal GDP has reached RMB37,938, more than doubling the amount in 2007.

## **CHANGZHOU**

Changzhou is a major city, situated in the south of Jiangsu Province. It borders Wuxi City to the east, Taihu Lake to the south, Nanjing City to the west and the Yangtze River to the north. The city is situated in the Yangtze Delta region of China. Changzhou is administratively divided into 2 county-level cities — Jintan and Liyang, and five districts — Wujin, Xinbei, Tianning, Zhonglou and Qishuyan. Changzhou covers a total area of approximately 4,385 square kilometers and has a registered population of approximately 3.7 million as of the end of 2012.

As one of the major manufacturing bases in the Yangtze River Delta area, Changzhou's manufacturing industry contributes approximately 52.9% of Changzhou's nominal GDP in 2012. The key industries in Changzhou include smelting and pressing of ferrous metals, raw chemical materials and chemical products, textile, electronic equipment and machinery, and general equipment manufacturing. Since the establishment of a state-level high-tech development zone in Xinbei District in 1992, Changzhou's government has been putting increasing emphasis on developing high-tech industries in the district.

## **HANGZHOU**

Hangzhou, located at the southern wing of the Yangtze River Delta, is the capital city of Zhejiang Province. It has been historically renowned for its attractive natural scenery, including West Lake, and is considered as one of China's best tourist cities.

Under the jurisdiction of Hangzhou are the eight districts of Shangcheng, Xiacheng, Jianggan, Gongshu, Xihu, Binjiang, Xiaoshan and Yuhang, the three county-level cities of Jiande, Fuyang and Lin'an, and the two counties of Tonglu and Chun'an. Hangzhou has a total area of 16,596 square kilometers, including the urban area of 3,068 square kilometers. By the end of 2012, Hangzhou had a population of 8.80 million.

Hangzhou has developed quickly to become one of the most significant secondary cities in the Yangtze River Delta. It is a transportation hub in the south-east, with an integrated network of railways and highways as well as an international airport, and is located approximately 180 kilometers from Shanghai.

## **SHANGHAI**

Situated in eastern China, Shanghai borders Jiangsu and Zhejiang provinces, and sits at the mouth of the Yangtze River. Thanks to its advantageous geographic location, Shanghai has become an excellent sea and river port, boasting easy access to a vast hinterland.

Shanghai had a total area of 6,341 square kilometers at the end of 2012, and has jurisdiction over 17 districts and one county. Despite having only 1% of the nation's population and 0.06% of the nation's land, Shanghai contributes one-eighth of China's fiscal revenue. The volume of cargo handled at local ports accounts for 10% of the national total, and commodities passing through the city's customs account for 25% of the national total.

Shanghai has an extensive public transport system, largely based on buses, taxis, and a rapidly expanding metro system. The Shanghai Metro rapid-transit system and elevated light rail has 11 lines at present. In cooperation with the Shanghai Municipality and the Shanghai Maglev Transportation Development Co. (SMT), German Transrapid constructed the first commercial Maglev railway in the world in 2002, from Shanghai's Longyang Road subway station in Pudong, to Pudong International Airport. Commercial operations started in 2003. The 30 kilometers trip takes seven minutes and 21 seconds and reaches a maximum speed of 431 kilometers per hour.

Shanghai is also a popular tourist destination renowned for its historical landmarks such as the Bund and Yuyuan Garden, and its extensive and growing Pudong skyline. Shanghai hosted the World Expo in 2010, attracting 73 million visitors.

## **XIAMEN**

Xiamen, the second largest city in Fujian province next to the capital, Fuzhou, covers a total area of 1,516 square kilometers. It looks out to the Taiwan Strait and borders Quanzhou to the north and Zhangzhou to the south. As one of the five earliest special economic zones, the city has attracted heavy investments from Taiwan and Hong Kong. There are six districts under the administration of Xiamen: Siming, Huli, Jimei, Haicang, Tong'an and Xiang'an. By the end of 2012, Xiamen had a population of 1.9 million.

The electronics & IT, machinery and chemical industries are the three backbone industries in Xiamen. Xiamen is the world's largest exporter and producer of tungsten products, a major computer exporter, a major aircraft maintenance centre and the largest producer of hearing aids, audio equipment, color films and film paper in the Asia-Pacific region.

## **CHONGQING**

Chongqing is the only municipality directly under the central government in western China. Located on the upper reaches of the Yangtze River, Chongqing is south-west China's biggest industrial and commercial centre, communication hub and inland port. By the end of 2012, Chongqing had a population of 33.4 million.

Chongqing's 82,400 square kilometers of territory is divided into 19 districts, 17 counties and four autonomous counties. These districts and counties create an urban cluster resulting in a city with the most number of administrative districts and the largest population in China. Chongqing is the only transportation hub in West China that integrates water, land, and air transportation. Several trunk railways and artery expressways meet in Chongqing.

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



## BUSINESS

### OVERVIEW

We are a leading property developer in China specializing in the development and operation of high-quality, large-scale, integrated retail and residential complexes. Our existing property projects are generally located in prime positions of fast-growing cities in Fujian Province, Jiangsu Province, Shandong Province, Henan Province, Anhui Province and Zhejiang Province as well as Tianjin Municipality, Shanghai Municipality and Chongqing Municipality. We intend to focus our expansion in property development operations in cities in China that we believe have high growth potential. Our shares have been listed on the main board of the Hong Kong Stock Exchange since October 2009 and our market capitalization was approximately HK\$6.2 billion as of November 18, 2015.

Our business model sets us apart from many property developers in China. We focus more on owning and operating retail properties, and our strategy is to sell all the residential properties and a portion of the retail properties that we develop to generate cash flow for our business operations. We retain ownership of a significant portion of our retail properties for long-term investment to generate recurring rental income and capture potential capital appreciation. We believe our business model allows us to diversify our revenue sources, generate steady recurring revenue and reduce our reliance on a particular sector of the real estate market. Our policy going forward will generally continue to follow our current practice with respect to properties for sale and properties to be retained for investment.

We focus primarily on fast-growing, emerging cities or districts in the Yangtze River Region, and have expanded our business substantially into the Bohai Region, the Central China Region and the West Strait Region. Our projects are primarily large-scale integrated retail and residential complexes that are among the largest integrated retail and residential projects in the cities or districts where they are located. The scale of our integrated retail and residential complexes, and the enhanced lifestyles, services and other benefits they bring to the surrounding communities, means that our developments typically have support and cooperation from local governments on city planning, design and the land acquisition processes. We believe that these factors help us to acquire prime sites for our projects at relatively low cost and give our projects a competitive advantage.

Most of our property development projects are branded “Powerlong Plaza,” and are integrated retail and residential complexes, typically with a total GFA ranging between 200,000 and 750,000 square meters each. The residential units in these projects target the end-user market, and the retail portions of the projects are designed to enhance the living environment for residents and other members of the surrounding community by providing easy access to staple services such as supermarkets, department stores, restaurants and fast food outlets, personal care services and movie theatres and other entertainment. As of June 30, 2015, we had developed, were developing or were holding for future development 50 property projects, and we were in various stages of negotiations and planning with a number of other city governments to develop similar projects in other cities.

As of June 30, 2015, we owned six hotels in Suzhou City, Qingdao City, Tai’an City, Yantai City and Yancheng City, namely, our Four Points by Sheraton Taicang in Suzhou Taicang Powerlong Plaza which opened in June 2010, our hotel in Tai’an Powerlong Plaza which opened in December 2010, our hotel in Qingdao Chengyang Powerlong Plaza which opened in January 2011, our hotel in Shandong Yantai Haiyang Powerlong City which opened in July 2011, our hotel in Qingdao Licang Powerlong Plaza which opened in February 2012, and our hotel in Yancheng Powerlong Plaza which opened in December 2013. Five of these hotels are managed and operated by an affiliate of Starwood Hotels & Resorts Worldwide, Inc., with whom we have entered into operating agreements and the remaining one is operated by us. In addition, we operate (but do not own) one hotel in Shandong Province.

We report our revenue under the following segments, namely (i) property development; (ii) property investment; (iii) property management services; and (iv) other property development related services. For the years ended 2011, 2012, 2013 and the six months ended June 30, 2014, property development remained our key revenue driver.

*Property Development.* As of June 30, 2015, we had 50 projects which are at different phases of development. As of June 30, 2015, we had 14 fully completed projects, among which three are located in Jiangsu Province, four in Fujian Province, four in Shandong Province, one in Henan Province, one in Anhui Province and one in Shanghai Municipality. We had 36 projects under development or held for future development, among which eight are located in Shanghai Municipality, six in Jiangsu Province, four in Zhejiang Province, five in Fujian Province, six in Shandong Province, three in Tianjin Municipality, one in Anhui Province, two in Henan Province and one in Chongqing Municipality.

*Property Investment.* As of June 30, 2015, we held and operated completed investment properties, mainly shopping malls, which are mainly located at Shanghai Municipality, Wuxi, Suqian and Yancheng in Jiangsu Province, Hangzhou in Zhejiang Province, Fuzhou, Jinjiang and Anxi in Fujian Province, Tai'an, Qingdao Chengyang, Jimo, Licang and Jiaozhou in Shandong Province, Tianjin Municipality, Zhengzhou, Luoyang and Xinxiang in Henan Province, Bengbu in Anhui Province and Hechuan in Chongqing Municipality.

*Property Management.* We provide after-sales property management services to the households of each project developed by us through our wholly-owned property management subsidiaries. Such services include maintenance of public utilities, cleaning of public area, gardening and landscaping, and other customer services.

*Hotel Development.* As of June 30, 2015, we owned a total of six hotels. Five of our hotels are operated by an affiliate of Starwood Hotels & Resorts Worldwide Inc. and the remaining one is operated by us. In addition, we operate (but do not own) one hotel in Shandong Province.

The total GFA of properties we delivered in 2012, 2013, 2014 and the first six months of 2015 was 863,082 square meters, 869,904 square meters, 752,359 square meters and 568,583 square meters, respectively. We intend to retain an increasing portion of our retail properties for recurring rental income and for capital appreciation and to sell our residential properties for cash flow. Our cash flow from operations may decrease if we hold a greater portion of our developed properties for investment and, as a result, sell fewer properties. For 2012, 2013, 2014 and the six months ended June 30, 2015, our revenue from sales of properties was RMB4,975.7 million, RMB6,243.9 million, RMB8,265.2 million and RMB4,073.4 million, respectively, representing approximately 84.7%, 86.0%, 85.5% and 86.1%, respectively, of our total revenue. As of December 31, 2012, 2013, 2014 and June 30, 2015, we had leased out a total GFA of 1,166,873 square meters, 1,371,084 square meters, 1,572,837 square meters and 1,716,107 square meters, respectively. For 2012, 2013, 2014 and the six months ended June 30, 2015, our rental income was RMB320.8 million, RMB349.2 million, RMB444.8 million and RMB259.9 million, respectively, representing approximately 5.5%, 4.8%, 4.6% and 5.5% respectively, of our total revenue.

Our revenue in 2012, 2013, 2014 and the six months ended June 30, 2015 was RMB5,871.8 million, RMB7,256.9 million, RMB9,663.0 million and RMB4,728.4 million respectively, and our EBITDA was RMB3,460.8 million, RMB1,883.9 million, RMB2,438.4 million and RMB1,722.3 million respectively.

## **OUR COMPETITIVE STRENGTHS**

We believe that we possess the following principal strengths enabling us to compete in the commercial real estate markets in China:

### **Proven standardized development model**

As of June 30, 2015 we had developed, were developing or were holding for future development 50 property projects, and we were at various stages of negotiations and planning with a number of city governments to develop similar projects in other cities. Through our experience with our Powerlong Plaza projects, we have developed a standard integrated shopping mall and residential development design and operating procedure. We believe this standardized model has significantly reduced our average development time and cost, and allows us to recover our investment quicker and thus reduces our funding risk. Our experience and strong relationships with our anchor retail tenants enables us to build their specifications into the project design and enable them to open for business earlier in the development process, further enhancing project cash flow and marketing. We design the retail portion of our property projects to provide essential staple facilities and services to the projects' residents and neighboring communities, including supermarkets, fast food outlets, restaurants, department stores, personal care services and entertainment. We believe such facilities and services contribute to a stable flow of patrons that is less susceptible to economic cycles. We believe we can replicate this standardized development and operating model in other cities efficiently.

We focus on the development of large-scale integrated retail and residential complexes and have formulated a business model that we believe sets us apart from our competitors. Our “Powerlong” business model has the following features:

- we strategically retain long-term ownership of our quality retail properties for recurring rental income from long-term leases with stable anchor tenants and potential capital appreciation;
- we select fast-growing, emerging cities or districts in China with relatively low land cost and potential for future growth to develop large-scale integrated retail and residential properties;
- we invite domestic and international retailers to be our long-term anchor tenants in order to meet consumer demand for staple services and enhance the attractiveness, reputation and property value of our properties; and
- we generally develop our properties in multiple phases. In early phases, we sell the residential properties and part of the retail properties to generate healthy cash flow early in the development process to satisfy the capital needs of the remaining phases of the project.

Our “Powerlong” business model allows us to expand rapidly with relatively low capital outlays, achieve attractive returns and obtain stable cash flow. We also believe that our focus on emerging cities and retail properties makes us less susceptible to market downturns resulting from government efforts to slow the rise of property prices.

### **High quality and well-diversified land bank and portfolio**

Our existing property projects are generally located in prime positions close to the city center of fast-growing, emerging cities or districts in China. As of June 30, 2015, we had completed 14 property development projects and had 36 other property development projects at various stages of development in a total of 26 cities and municipalities in China. We had total GFA under development of approximately 6.9 million square meters encompassing work at 33 projects, of which five are located in Jiangsu Province, six in Shandong Province, two in Henan Province, five in Fujian Province, two in Tianjin Municipality, seven in Shanghai Municipality, four in Zhejiang Province, one in Anhui Province and one in Chongqing Municipality. We had total GFA of approximately 3.9 million square meters held for future development at 18 projects, 16 of which are also properties under development and 2 of which are held for future development. Of our projects held for future development, we have five in Jiangsu Province, two in Fujian Province, two in Shanghai Municipality, three in Shandong Province, two in Tianjin Municipality, one in Zhejiang Province, two in Henan Province and one in Chongqing Municipality. We believe our existing land bank is adequate for three to five years of property development. We leverage our management’s extensive experience and in-depth industry knowledge and believe that most of our land acquisitions were well-timed and at relatively low prices. We believe our geographically diverse and low-cost land reserves allow us to diversify our product portfolio, access wider market segments, and reduce our exposure to market fluctuations.

### **Strong contracted sales provide ample operational flexibility**

We have experienced strong contracted sales for the years 2012, 2013, 2014 and the six months ended June 30, 2015 which has made us more resilient against the austerity measures the PRC government has implemented and amended from time to time since 2009. Our business model incorporates the key market factors that influence housing growth in China, particularly in the cities and regions where we operate or into which we intend to expand. We primarily focus on the development of commercial in the urban areas in emerging cities. Over the years, we have experienced steady growth in terms of contracted sales and profit. We believe that our strong contracted sales is attributable to our knowledge of real estate markets and our understanding of market trends in China enable us to respond effectively to market conditions and changes. In addition, our diversified product portfolio has reduced our exposure to market fluctuations and made us more resilient against the PRC government’s austerity measures.

### **Strong recurring income and established tenants network**

We provide a one-stop shopping solution for customers visiting our retail complexes, offering a diverse range of staple services, including supermarkets, department stores, restaurants and entertainment. We seek to maintain the quality and attractiveness of our commercial complexes by establishing long-term

partnerships with domestic and international retailers across a wide spectrum of industries. Many of these retailers, have become our key tenants in our retail complexes. Most of our leases with anchor tenants are for a term of 10 to 20 years. We believe our relationships with these well-recognized and reputable anchor tenants enhance our ability to successfully replicate our standardized development model and secure recurring rental income.

We often also seek input from some of our largest anchor tenants in relation to the design and construction of our commercial properties in the early stages of project development to help secure the long-term tenancy of our anchor tenants. In addition, some of these anchor tenants work closely with Powerlong to strategically select cities and sites. We believe that by understanding the needs of our anchor tenants, we are able to increase operating efficiencies and lower our risks in future projects. A significant benefit of our close working relationship with our anchor tenants is that many of our projects have an average 80% occupancy rate at the time they open.

### **Proven ability to secure land at low cost**

We believe land reserves acquired at relatively low cost are paramount to our long-term growth and profitability. Most of the parcels of land we have acquired are located in fast-growing, emerging cities or districts. Through our in-depth knowledge of local urban planning, we endeavor to acquire prime sites in areas with good growth potential and that we believe will become new commercial districts. With the support and cooperation of city governments, we design projects that enhance the living environment of residents of the projects and the surrounding community by providing a one-stop solution to their retail and entertainment needs. We believe that our established brand name, reputation, track record as a leading developer of integrated retail and residential complexes and our ability to design projects in line with local urban planning and city expansion plans provide us with a competitive edge and stronger bargaining power relative to our competitors when acquiring land. We believe the relatively low cost of our acquired land reserves has enhanced our ability to respond to changing market conditions, which will continue to underpin our profitability and future success.

### **Experienced management team and recognized brand value**

We employ an integrated business management system to manage our project developments. Other than project construction and certain design work outsourced to external contractors, our professional teams carry out tasks which straddle a number of areas of expertise, including market research and analysis, project selection, project planning, materials procurement, construction work management, interior decoration, sales and marketing, property management, property leasing as well as customer service. We believe our integrated project development and management system has enabled us to become one of the leading commercial property developers in China possessing capabilities to develop and manage large-scale, high-quality commercial projects. We believe that by integrating capabilities and expertise in every stage of the property development process, we are able to have greater control over quality and costs and thereby increase operating efficiencies and enjoy enhanced economies of scale.

Members of our senior management team, including our chairman, Hoi Kin Hong, our executive directors, Hoi Wa Fong, Shih Sze Ni, Xiao Qing Ping and Zhang Hong Feng, have on average over 11 years of experience in the PRC real estate industry. They also have considerable strategic planning and business management expertise. Our chairman, Hoi Kin Hong, is a recognized leader in large-scale commercial property development in China and highly reputed in the industry. He has received a number of accolades including Contributor to Real Estate Brands in China (中國房地產品牌貢獻人物) from the China Index Academy (中國指數研究院) and Certificate of the Most Influential Entrepreneurs in China (中國最具影響力企業家) from the China Index Academy (中國指數研究院), in recognition of his achievements as an entrepreneur and his contribution to the commercial real estate industry in China. In addition, our chief executive director, Hoi Wa Fong, received the Most Influential Person in China Real Estate award and was named in the Person of the Year in the China Commercial Property Value List for two consecutive years since 2013. Our executive directors and senior management personnel have been working with us for an average of five years, and form a stable core team which has operated well together. We believe the stability of our management team, the extensive experience of its members in the integrated retail property industry and its in-depth understanding of the integrated retail property market in our target regions will help us to take advantage of future business opportunities and expand into new markets.

We are a leading property developer in China. We believe that our successful operations since our inception have helped us to make our brand name “Powerlong Real Estate” and our product brand “Powerlong Plaza” synonymous with large-scale, high-quality, innovative and well-designed integrated retail and residential complexes. We also believe that our well-recognized brand name coupled with our distinctive model of property development has helped us to command premium pricing and thus increased our profitability. We have received many awards in recognition of the high-quality design and construction of our successful property development operations. These awards are issued on an annual basis by the organizers based on, among others, their assessment of the candidates’ total assets, total liabilities, total revenue, net profit, GFA under development, GFA of completed properties, land reserve, and donations made to charitable organizations. We believe that our well-recognized brand name will help us to successfully replicate our past success in other regional markets across China in which we choose to execute our expansion strategy.

## **OUR BUSINESS STRATEGIES**

Our principal business strategies are:

### **Strategic commercial property projects to generate stable recurring income and product positioning**

We intend to develop more commercial properties such as hotels, shopping malls and office buildings to generate stable recurring income. We also plan to establish ourselves as a leading commercial complex operator in China through continuous innovations and improvements to our current business model. We plan to continue to leverage upon our “Powerlong” business model and develop large-scale, integrated retail and residential complexes in cities and districts with good growth potential across China. We believe that by focusing on these cities and districts, we will be able to capitalize on the increased demand for quality properties driven by heightened regional business activities. We believe that our “Powerlong” business model enhances the lifestyles of the residents of our projects and surrounding areas by providing them with a one-stop solution to their staple needs. Although rental income from investment properties for the six months ended June 30, 2015 only accounted for approximately 5.5% of our consolidated revenue, we intend to continue to increase our portfolio of investment properties to generate stable and recurrent revenue and capture potential appreciation in value. As competition continues to intensify in the PRC real estate market, we believe our strategy of maintaining a well-diversified revenue base and risk profile will strengthen our competitiveness and support our continued business expansion.

### **Achieve further geographical diversification in China**

We intend to continue to focus our property developments in the Yangtze River Delta, in particular Shanghai municipality as well as other high growth provinces such as Shandong province and Fujian province. We believe that the Yangtze River Delta will remain one of the most economically dynamic regions in China, and that we will be able to continue to capitalize on the mass market housing demand for residential property as well as other types of property we develop in this region. We plan to pursue further geographical diversification through expansion into other select high-growth areas in China.

### **Continue to actively monitor and manage capital needs**

We intend to continue to actively monitor and manage our liquidity position by taking into account our capital needs, available cash and financing options. We plan to leverage our brand name recognition and reputation and our competitive advantages in the industry to achieve better fund raising results in capital markets. We intend to continue to increase our land reserves and strategically select new locations for future project development in order to grow our business. We also plan to improve our property developments to provide more innovative products and extract from our experiences as a leading developer of integrated retail and residential complexes, to meet customers’ needs and preferences in the areas we expand to.

### **Continue to develop standardized product lines**

We intend to continue to develop standardized product lines to achieve rapid asset turnover and expand the scale of our development while keeping costs competitive. For example, certain of our main product lines, including our community-commercial complexes, sub-urban center commercial complexes and city center commercial complexes, have been implemented in cities across China and are designed to offer



comfortable and convenient community lifestyles and a portfolio of standard architectural plans and designs. We believe standardized product lines and development processes will allow us to achieve efficient use of capital and other resources and develop new projects on a timely basis. Further, we believe that continuing to refine our standardized project development and design model and expand its application will enable us to enhance our management efficiency, reduce operating costs and expenses and improve our risk control.

**Standardize and improve operation management**

We intend to standardize operation management by drawing on the expertise and experience of our senior management and actively interact with international business partners and professional advisors. We intend to maintain an organizational structure and information technology platform that is consistent with our business development plans to maintain and increase and improve the efficiency as well as cost and quality control of our operations. We also intend to continue to develop and strengthen our long-term partnerships with domestic and international retailers and expand our mix of anchor tenants for the retail complexes we develop. We believe that such partnerships with well-known retailers, including Carrefour, Suning Electronics, Walmart and TESCO will allow us to maintain the quality and value of our properties. We also believe that we will be able to introduce them to similar projects in other target markets and further enhance our “Powerlong” brand.

**OUR PROPERTY PROJECTS**

As of June 30, 2015, we had projects in 26 cities and municipalities in China. Please see the map below for the locations of our completed properties, properties under development and properties held for future development.



As of June 30, 2015, we had a total of 50 property projects in the following categories in accordance with our classification system:

- completed GFA, comprising GFA that we have completed since our inception;
- GFA under development, comprising GFA with land use rights certificates issued by the relevant government authorities and the construction thereof commenced but for which the certificates of completion have not been obtained; and

- GFA held for future development, comprising GFA with respect to which we have signed the relevant land grant contracts with the relevant PRC authorities but for which the structure have not commenced.

**Property Classification.** Our classification of properties reflects the basis on which we operate our business and may differ from classifications employed by other developers. Each property project may require multiple land use rights certificates, construction land planning permits, construction works planning permits, construction permits, pre-sale permits and other permits and certificates which are issued at different stages throughout the development process.

**Site Area Calculation.** The site area information in this offering circular is derived on the following basis:

- when we have received the land use rights certificates, the site area information in respect of the related projects refers to the site area information in such land use rights certificates; and
- before we have received the land use rights certificates, the site area information in respect of the related projects refers to the site area information in the relevant land grant contracts or the relevant government permits related to the projects excluding, however, the areas earmarked for public infrastructure such as roads and community recreation zones.

**GFA Calculation.** The GFA information in this offering circular is derived on the following basis:

- if we have obtained the property ownership certificates for the projects, the saleable GFA information refers to the saleable GFA in the property ownership certificates;
- if we have not yet obtained the property ownership certificates but have obtained the construction permits, the total GFA information in respect of these projects refers to the total GFA in such construction permits;
- if we have not yet obtained the construction permits but have obtained the construction works planning permits for the projects, the total GFA information in respect of these projects refers to the total GFA in such construction works planning permits;
- if we have not yet obtained the construction works planning permits, but have received the land use rights certificates for the projects, the total GFA information in respect of these projects refers to the total GFA in such land use rights certificates; and
- if we have not obtained the land use rights certificates, but have signed the land grant contracts, the total GFA information in respect of these projects refers to the total GFA in such land grant contracts.

Total GFA stated in the property ownership certificates, construction permits and construction works planning permits includes underground GFA. Underground GFA refers to basement and other underground spaces, generally used for parking and storage purposes.

GFA held for sale and GFA held for lease information in this offering circular include GFA of car parking spaces unless otherwise specified. GFA sold information refers to the GFA in the relevant sale and purchase agreements on an aggregate basis.

GFA held for sale and GFA held for lease information are based on our Company and the directors' current plan and intention and may therefore be subject to adjustment.

The geographical distribution of our property projects as of June 30, 2015 was as follows:

Projects	Site area ('000 sq.m.)	Total GFA ('000 sq.m.)	Completed GFA development		GFA under development		GFA held for future development	
			Total GFA ('000 sq.m.)	% of total GFA (%)	Total GFA ('000 sq.m.)	% of total GFA (%)	Total GFA ('000 sq.m.)	% of total GFA (%)
<b>Fujian Province</b>								
Xiamen Powerlong One Mall (廈門寶龍一城)	74.0	383.0	—	—	383.0	5.6%	—	—
Xiamen Powerlong Lakeside Mansions (廈門寶龍御湖官邸)	29.8	77.7	77.7	0.9%	—	—	—	—
Quanzhou Anxi Powerlong Plaza (泉州安溪寶龍廣場)	86.9	332.0	290.8	3.3%	41.1	0.6%	—	—
Quanzhou Jinjiang Powerlong Golden Jiayuan (泉州晉江寶龍金色家園)	37.5	143.5	143.5	1.6%	—	—	—	—
Yongchun Powerlong Plaza (泉州永春寶龍廣場)	59.0	398.3	—	—	171.3	2.5%	226.9	5.8%
Quanzhou Anhai Powerlong Haoyuan (泉州安溪寶龍豪苑)	36.0	54.2	54.2	0.6%	—	—	—	—
Quanzhou Jinjiang Powerlong Plaza (泉州晉江寶龍廣場)	135.4	819.7	476.1	5.4%	130.9	1.9%	212.7	5.4%
Zhangzhou Yunxiao General Avenue No. 1 (漳州雲霄·將軍一號)	25.7	110.6	—	—	110.6	1.6%	—	—
Fuzhou Powerlong Plaza (福州寶龍廣場)	72.9	218.2	218.2	2.5%	—	—	—	—
<b>Shanghai Municipality</b>								
Shanghai Qibao Powerlong City (上海七寶寶龍城)	83.7	390.9	—	—	390.9	5.7%	—	—
Shanghai Hongqiao Powerlong City (上海虹橋寶龍城)	147.4	316.5	125.2	1.4%	191.3	2.8%	—	—
Shanghai Jiading Powerlong Plaza (上海嘉定寶龍廣場)	40.9	195.0	—	—	195.0	2.8%	—	—
Shanghai Fengxian Powerlong Plaza (上海奉賢寶龍廣場)	40.7	179.1	85.8	1.0%	93.3	1.4%	—	—
Shanghai Baoshan Powerlong Plaza (上海寶山寶龍廣場)	14.0	35.9	—	—	35.9	0.5%	—	—
Shanghai Caolu Powerlong Plaza (上海曹路寶龍廣場)	71.2	167.5	167.5	1.9%	—	—	—	—
Shanghai Lingang Powerlong Plaza (上海臨港寶龍廣場)	31.8	86.6	—	—	86.6	1.3%	—	—
Shanghai Qingpu Powerlong Plaza (上海青浦寶龍廣場)	63.6	345.9	—	—	149.0	2.2%	196.9	5.0%
Shanghai Wujing Powerlong Plaza (上海吳淞寶龍廣場)	41.1	94.2	—	—	—	—	94.2	2.4%
<b>Jiangsu Province</b>								
Suqian Powerlong Plaza (宿遷寶龍廣場)	220.2	486.1	486.1	5.5%	—	—	—	—
Changzhou Powerlong Plaza (常州寶龍廣場) <sup>(3)</sup>	270.1	1,053.7	271.4	3.1%	362.5	5.3%	419.8	10.7%
Yangzhou Powerlong Golden Wheel Plaza (揚州寶龍金輪廣場)	61.3	234.9	—	—	234.9	3.4%	—	—
Wuxi Powerlong Plaza (無錫寶龍廣場)	77.0	287.1	287.1	3.2%	—	—	—	—
Wuxi Yuqi Powerlong Riverside Garden (無錫玉祁寶龍湖畔花城)	156.6	350.7	223.9	2.5%	79.9	1.2%	47.0	1.2%
Zhenjiang Powerlong Plaza (鎮江寶龍廣場)	79.1	363.9	58.9	0.7%	261.5	3.8%	43.5	1.1%
Huai'an Powerlong Plaza (淮安寶龍廣場)	107.1	154.3	—	—	33.4	0.5%	120.9	3.1%
Yancheng Powerlong Plaza (鹽城寶龍廣場)	221.2	494.9	494.9	5.6%	—	—	—	—
Suzhou Taicang Powerlong Plaza (蘇州太倉寶龍廣場)	130.8	288.5	266.4	3.0%	—	—	22.1	0.6%
<b>Zhejiang Province</b>								
Hangzhou Fuyang Powerlong Plaza (杭州富陽寶龍廣場)	59.3	192.8	—	—	192.8	2.8%	—	—
Hangzhou XiaSha Powerlong Plaza (杭州下沙寶龍廣場)	90.0	353.9	225.6	2.5%	128.3	1.9%	—	—
Hangzhou Binjiang Powerlong City (杭州濱江寶龍城)	76.9	277.3	—	—	137.3	2.0%	140.0	3.6%
Hangzhou Xiaoshan Powerlong Plaza (杭州蕭山寶龍廣場)	45.8	223.3	—	—	223.3	3.3%	—	—

Projects	Site area ( <sup>'000</sup> sq.m.)	Total GFA ( <sup>'000</sup> sq.m.)	Completed GFA development		GFA under development		GFA held for future development	
			Total GFA ( <sup>'000</sup> sq.m.)	% of total GFA (%)	Total GFA ( <sup>'000</sup> sq.m.)	% of total GFA (%)	Total GFA ( <sup>'000</sup> sq.m.)	% of total GFA (%)
<b>Anhui Province</b>								
Fuyang Powerlong Plaz (阜陽寶龍廣場)	170.4	758.1	—	—	758.1	11.1%	—	—
Bengbu Powerlong Plaza (蚌埠寶龍廣場)	192.3	498.6	498.6	5.6%	—	—	—	—
<b>Tianjin Municipality</b>								
Tianjin Yujiapu Powerlong International Center (天津于家堡寶龍國際中心)	30.1	359.2	—	—	359.2	5.2%	—	—
Tianjin North Green Area (天津北綠地項目) <sup>(3)</sup>	73.4	110.0	—	—	—	—	110.0	2.8%
Tianjin Binhai Powerlong City (天津濱海寶龍城)	444.5	685.4	—	—	111.9	1.6%	573.6	14.7%
<b>Shandong Province</b>								
Dongying Powerlong Plaza (東營寶龍廣場)	138.7	464.3	—	—	243.9	3.6%	220.4	5.6%
Qingdao Jimo Powerlong Plaza (青島即墨寶龍廣場)	152.2	617.7	617.7	7.0%	—	—	—	—
Tai'an Powerlong Plaza (泰安寶龍廣場)	237.5	283.5	283.5	3.2%	—	—	—	—
Yantai Haiyang Powerlong City (煙臺海陽寶龍城)	668.2	878.8	113.8	1.3%	25.5	0.4%	739.4	18.9%
Yantai Laishan Powerlong Plaza (煙臺萊山寶龍廣場)	33.7	171.5	—	—	171.5	2.5%	—	—
Yantai Penglai Powerlong Plaza (煙臺蓬萊寶龍廣場)	268.1	353.0	48.2	0.5%	267.5	3.9%	37.2	1.0%
Qingdao Jiaozhou Powerlong Plaza (青島膠州寶龍廣場)	78.6	334.9	—	—	334.9	4.9%	—	—
Qingdao Jiaozhou Powerlong City (青島膠州寶龍城) <sup>(3)</sup>	128.5	377.0	—	—	377.0	5.5%	—	—
Qingdao Chengyang Powerlong Plaza (青島城陽寶龍廣場)	319.8	707.1	707.1	8.0%	—	—	—	—
Qingdao Licang Powerlong Plaza (青島李滄寶龍廣場)	107.2	369.3	369.3	4.2%	—	—	—	—
<b>Henan Province</b>								
Xinxiang Powerlong Plaza (新鄉寶龍廣場)	300.0	1,296.0	485.8	5.5%	295.1	4.3%	515.1	13.2%
Luoyang Powerlong Plaza (洛陽寶龍廣場)	355.6	1,369.5	1,066.9	12.0%	121.2	1.8%	181.5	4.6%
Zhengzhou Powerlong Plaza (鄭州寶龍廣場)	134.0	251.6	251.6	2.8%	—	—	—	—
<b>Chongqing Municipality</b>								
Chongqing Hechuan Powerlong Plaza (重慶合川寶龍廣場) <sup>(3)</sup>	180.2	635.8	464.2	5.2%	159.3	2.3%	12.2	0.3%
<b>Total</b>	<b>6,699.9</b>	<b>19,631.5</b>	<b>8,860.3</b>	<b>100%</b>	<b>6,857.7</b>	<b>100%</b>	<b>3,913.5</b>	<b>100%</b>

**Notes:**

- (1) GFA figures in the above table may not correspond to GFA figures in the main body of this offering circular due to rounding and classification.
- (2) Our properties in Mingfa Commercial Plaza are not included in this table as the properties were not developed by us. We acquired these properties on December 31, 2012.
- (3) We have not obtained all the land use rights certificates for these projects.

The table below sets forth the total GFA held for lease and other relevant information in our projects as of June 30, 2015.

Projects	GFA HELD FOR LEASE <sup>(1)</sup>				Proportion of total GFA (%)
	Completed GFA <sup>(2)</sup>	GFA under development	GFA held for future development	Total	
	('000 sq.m.)	('000 sq.m.)	('000 sq.m.)	('000 sq.m.)	
<b>Fujian Province</b>					
Xiamen Powerlong One Mall (廈門寶龍一城)	—	301.4	—	301.4	5.0%
Xiamen Powerlong Lakeside Mansions (廈門寶龍御湖官邸)	—	—	—	—	—
Quanzhou Anxi Powerlong Plaza (泉州安溪寶龍廣場)	74.4	12.3	—	86.7	1.4%
Quanzhou Jinjiang Powerlong Golden Jiayuan (泉州晉江寶龍金色家園)	—	—	—	—	—
Quanzhou Yongchun Powerlong Plaza (泉州永春寶龍廣場)	—	32.8	20.0	52.8	0.9%
Quanzhou Anhai Powerlong Haoyuan (泉州安海寶龍豪苑)	—	—	—	—	—
Quanzhou Jinjiang Powerlong Plaza (泉州晉江寶龍廣場)	169.4	118.4	3.4	291.2	4.9%
Zhangzhou Yunxiao General Avenue No. 1 (漳州雲霄·將軍一號)	—	—	—	—	—
Fuzhou Powerlong Plaza (福州寶龍廣場)	121.5	—	—	121.5	2.0%
Mingfa Commercial Plaza (明發商業廣場) <sup>(3)</sup>	56.5	—	—	56.5	0.9%
<b>Shanghai Municipality</b>					
Shanghai Qibao Powerlong City (上海七寶寶龍城)	—	235.7	—	235.7	3.9%
Shanghai Hongqiao Powerlong City (上海虹橋寶龍城)	—	77.9	—	77.9	1.3%
Shanghai Jiading Powerlong Plaza (上海嘉定寶龍廣場)	—	131.3	—	131.3	2.2%
Shanghai Fengxian Powerlong Plaza (上海奉賢寶龍廣場)	—	93.3	—	93.3	1.6%
Shanghai Baoshan Powerlong Plaza (上海寶山寶龍廣場)	—	21.9	—	21.9	0.4%
Shanghai Caolu Powerlong Plaza (上海曹路寶龍廣場)	91.7	—	—	91.7	1.5%
Shanghai Lingang Powerlong Plaza (上海臨港寶龍廣場)	—	43.1	—	43.1	0.7%
Shanghai Qingpu Powerlong Plaza (上海青浦寶龍廣場)	—	37.1	104.0	141.1	2.4%
Shanghai Wujing Powerlong Plaza (上海吳淞寶龍廣場)	—	—	68.3	68.3	1.1%
<b>Jiangsu Province</b>					
Suqian Powerlong Plaza (宿遷寶龍廣場)	150.7	—	—	150.7	2.5%
Changzhou Powerlong Plaza (常州寶龍廣場)	3.6	103.6	59.7	166.9	2.8%
Yangzhou Powerlong Golden Wheel Plaza (揚州寶龍金輪廣場)	—	87.5	—	87.5	1.5%
Wuxi Powerlong Plaza (無錫寶龍廣場)	156.5	—	—	156.5	2.6%
Wuxi Yuqi Powerlong Riverside Garden (無錫玉祁寶龍湖畔花城)	—	—	—	—	—
Zhenjiang Powerlong Plaza (鎮江寶龍廣場)	6.7	101.7	—	108.4	1.8%
Huai'an Powerlong Plaza (淮安寶龍廣場)	—	10.5	18.4	28.9	0.5%
Yancheng Powerlong Plaza (鹽城寶龍廣場)	191.8	—	—	191.8	3.2%
Suzhou Taicang Powerlong Plaza (蘇州太倉寶龍廣場)	62.6	—	—	62.6	1.0%

Projects	GFA HELD FOR LEASE <sup>(1)</sup>				Proportion of total GFA (%)
	Completed GFA <sup>(2)</sup> (‘000 sq.m.)	GFA under development (‘000 sq.m.)	GFA held for future development (‘000 sq.m.)	Total (‘000 sq.m.)	
<b>Zhejiang Province</b>					
Hangzhou Fuyang Powerlong Plaza (杭州富陽寶龍廣場)	—	60.0	—	60.0	1.0%
Hangzhou Xiasha Powerlong Plaza (杭州下沙寶龍廣場)	62.1	48.5	—	110.6	1.8%
Hangzhou Binjiang Powerlong City (杭州濱江寶龍城)	—	0.4	140.0	140.4	2.3%
Hangzhou Xiaoshan Powerlong Plaza (杭州蕭山寶龍廣場)	—	124.2	—	124.2	2.1%
<b>Anhui Province</b>					
Fuyang Powerlong Plaza (阜陽寶龍廣場)	—	238.1	—	238.1	4.0%
Bengbu Powerlong Plaza (蚌埠寶龍廣場)	272.3	—	—	272.3	4.5%
<b>Tianjin Municipality</b>					
Tianjin Yujiapu Powerlong International Center (天津于家堡寶龍國際中心)	—	125.6	—	125.6	2.1%
Tianjin North Green Area (天津北綠地項目)	—	—	99.8	99.8	1.7%
Tianjin Binhai Powerlong City (天津濱海寶龍城)	—	2.1	2.5	4.6	0.1%
<b>Shandong Province</b>					
Dongying Powerlong Plaza (東營寶龍廣場)	—	27.8	91.9	119.7	2.0%
Qingdao Jimo Powerlong Plaza (青島即墨寶龍廣場)	166.9	—	—	166.9	2.8%
Tai'an Powerlong Plaza (泰安寶龍廣場)	110.2	—	—	110.2	1.8%
Yantai Haiyang Powerlong City (煙臺海陽寶龍城)	77.4	—	—	77.4	1.3%
Yantai Laishan Powerlong Plaza (煙臺萊山寶龍廣場)	—	59.0	—	59.0	1.0%
Yantai Penglai Powerlong Plaza (煙臺蓬萊寶龍廣場)	0.3	92.9	37.2	130.5	2.2%
Qingdao Jiaozhou Powerlong Plaza (青島膠州寶龍廣場)	—	96.6	—	96.6	1.6%
Qingdao Jiaozhou Powerlong City (青島膠州寶龍城)	—	—	—	—	—
Qingdao Chengyang Powerlong Plaza (青島城陽寶龍廣場)	301.7	—	—	301.7	5.0%
Qingdao Licang Powerlong Plaza (青島李滄寶龍廣場)	200.3	—	—	200.3	3.3%
<b>Henan Province</b>					
Xinxiang Powerlong Plaza (新鄉寶龍廣場)	124.0	2.1	104.8	230.9	3.9%
Luoyang Powerlong Plaza (洛陽寶龍廣場)	256.0	17.7	6.8	280.6	4.7%
Zhengzhou Powerlong Plaza (鄭州寶龍廣場)	139.1	—	—	139.1	2.3%
<b>Chongqing Municipality</b>					
Chongqing Hechuan Powerlong Plaza (重慶合川寶龍廣場)	112.4	21.3	4.4	138.2	2.3%
<b>Total</b>	<b>2,908.2</b>	<b>2,325.0</b>	<b>761.2</b>	<b>5,994.4</b>	

*Note:*

- (1) GFA figures in the above table may not correspond to GFA figures in the main body of this offering circular due to rounding and classification.
- (2) GFA figures are inclusive of GFA in respect of car parking spaces.
- (3) We acquired certain properties in Mingfa Commercial Plaza on December 31, 2012. As these properties were not developed by us, they are not considered our property projects.

## RECENT DEVELOPMENT

On November 17, 2015, we, through an indirect wholly-owned subsidiary, successfully acquired the land use rights for a parcel of land located in Baoshan District, Shanghai, the PRC at a consideration of RMB1,222.0 million. Pursuant to our anticipated development plan and the estimated total GFA of the land, we expect that approximately 40,000 square meters out of the total GFA of 187,419.54 square meters, representing approximately 21% of the total GFA of the land, will be held for investment and the remaining portion of the land will be developed for sale.

## DESCRIPTION OF OUR PROPERTY DEVELOPMENT PROJECTS

The following are detailed descriptions of our 50 property development projects as of June 30, 2015.

### FUJIAN PROVINCE

#### **Quanzhou Jinjiang Powerlong Golden Jiayuan (泉州晉江寶龍金色家園)**

Quanzhou Jinjiang Powerlong Golden Jiayuan is located in Jinjiang City, Fujian Province. This project consists of apartment units, hotel style apartment suites, retail shops and car parking space. As of June 30, 2015, we had completed development of all phases of Quanzhou Jinjiang Powerlong Golden Jiayuan. We completed Quanzhou Jinjiang Powerlong Golden Jiayuan in April 2005.

#### **Quanzhou Anhai Powerlong Haoyuan (泉州安海寶龍豪苑)**

Quanzhou Anhai Powerlong Haoyuan is located at Feng Huan Shan District, Anhai Town, Quanzhou City, Fujian Province. This project consists of apartment units, retail shops and car parking space. As of June 30, 2015, we had completed development of all phases of Quanzhou Anhai Powerlong Haoyuan. We completed Quanzhou Anhai Powerlong Haoyuan in March 2005.

#### **Fuzhou Powerlong Plaza (福州寶龍廣場)**

Fuzhou Powerlong Plaza is located in the Taijiang District, Fuzhou City, Fujian Province. It is in the vicinity of the Fuzhou Jiangbin tourism area. This project consists of a large-scale multi-functional commercial complex, night club, disco, hotel style apartment suites and car parking space. As of June 30, 2015, we had completed development of all phases of Fuzhou Powerlong Plaza. We completed Fuzhou Powerlong Plaza in November 2006.

#### **Quanzhou Anxi Powerlong Plaza (泉州安溪寶龍廣場)**

Quanzhou Anxi Powerlong Plaza is located in Anxi City, Fujian Province. Phase I of this project consists of a large-scale multi-functional retail complex, hotel style apartment suites, apartment units, retail shops, and car parking spaces and Phase II consists of a hotel. As of June 30, 2015, we had completed Phase I of Quanzhou Anxi Powerlong Plaza. We completed the entire project in September 2015.

#### **Xiamen Powerlong Lakeside Mansion (廈門寶龍御湖官邸)**

Xiamen Powerlong Lakeside Mansion is located in Xiamen City, Fujian Province. This project consists of residential units, villas and retail shops. We completed the entire project in April 2015.

#### **Quanzhou Jinjiang Powerlong Plaza (泉州晉江寶龍廣場)**

Quanzhou Jinjiang Powerlong Plaza is located in Jinjiang, Fujian Province. As of June 30, 2015, we had commenced construction of Jinjiang Powerlong Plaza. We had completed the shopping mall of this project in December 2013. We expect to complete the entire project by 2018.

#### **Quanzhou Yongchun Powerlong Plaza (泉州永春寶龍廣場)**

Quanzhou Yongchun Powerlong Plaza is located in Yongchun, Fujian Province. This project is expected to consist of residential and commercial units. As of June 30, 2015, we had commenced construction of Yongchun Powerlong Plaza.

### **Zhangzhou Yunxiao General Avenue No. 1 (漳州雲霄將軍一號)**

Zhangzhou Yunxiao General Avenue No.1 is located in Zhangzhou City, Fujian Province. This project consists of commercial facilities, residential units, retail stores and apartment suites. As of June 30, 2015, we had commenced construction of Zhangzhou Yunxiao General Avenue No.1. We completed Zhangzhou Yunxiao General Avenue No. 1 in September 2015.

### **Xiamen Powerlong One Mall (廈門寶龍一城)**

Xiamen Powerlong One Mall is located in Xiamen City, Fujian Province. This project is expected to consist of commercial facilities, a shopping mall, a hotel and office buildings. As of June 30, 2015, we had commenced construction of Xiamen Powerlong One Mall. We expect to complete it by 2017.

## **JIANGSU PROVINCE**

### **Suzhou Taicang Powerlong Plaza (蘇州太倉寶龍廣場)**

Suzhou Taicang Powerlong Plaza is located in Taicang, Suzhou City, Jiangsu Province. Phase I consists of a high-quality hotel, apartment units, retail shops, restaurants and entertainment facilities, Phase II consists of apartment units and Phase III consists of high-rise office towers. As of June 30, 2015, we had completed Phase I and II of Suzhou Taicang Powerlong Plaza. Phase III is held for future development.

### **Wuxi Powerlong Plaza (無錫寶龍廣場)**

Wuxi Powerlong Plaza is located in the central business district of Wuxi New District in Wuxi City, Jiangsu Province. This project consists of hotel style apartment suites, retail shops, a large-scale commercial complex and car parking space. We completed Wuxi Powerlong Plaza in December 2010.

### **Wuxi Yuqi Powerlong Riverside Garden (無錫玉祁寶龍湖畔花城)**

Wuxi Yuqi Powerlong Riverside Garden is located in Yuqi Town, Huishan District, Wuxi City, Jiangsu Province. Phase I consists of a shopping mall, apartment suites, villas and car parking, Phase II consists of apartment units, villas and car parking space and Phase III consists of apartment units and retail property. As of June 30, 2015, we had completed Phase I and II of Wuxi Yuqi Powerlong Riverside Garden. We expect to complete the entire project by December 2015.

### **Suqian Powerlong Plaza (宿遷寶龍廣場)**

Suqian Powerlong Plaza is located Suqian City, Jiangsu Province. This project consists of a large-scale multi-functional commercial complex, hotel style apartment suites, apartment suites, retail shops and car parking. As of June 30, 2015, we had completed construction of Suqian Powerlong Plaza.

### **Yancheng Powerlong Plaza (鹽城寶龍廣場)**

Yancheng Powerlong Plaza is located in Yancheng City, Jiangsu Province. This project consists of a large-scale multi-functional commercial complex, apartment suites, retail shops, hotel and car parking. As of June 30, 2015, we had completed construction of Yancheng Powerlong Plaza.

### **Changzhou Powerlong Plaza (常州寶龍廣場)**

Changzhou Powerlong Plaza is located in Changzhou City, Jiangsu Province. Phase I consists of apartment suites, retail shops and car parking and Phase II consists of a large-scale multi-functional commercial complex, hotel style apartment suites, apartment units, retail shops and car parking space. As of June 30, 2015, we had commenced construction of Changzhou Powerlong Plaza. We expect to complete it by November 2015.

### **Yangzhou Powerlong Golden Wheel Plaza (揚州寶龍金輪廣場)**

Yangzhou Powerlong Golden Wheel Plaza is located in Yangzhou, Jiangsu Province. This project is expected to consist of a shopping mall, commercial units, offices, residential units, a hotel and car park spaces. As of June 30, 2015, we had commenced construction of Yangzhou Powerlong Golden Wheel Plaza. We expect to complete it by November 2016.



### **Zhenjiang Powerlong Plaza (鎮江寶龍廣場)**

Zhenjiang Powerlong Plaza is located in Zhenjiang City, Jiangsu Province. The project consists of apartment units, villas, retail shops, hotel style apartment suites and a mall. As of June 30, 2015, we had commenced construction of Zhenjiang Powerlong Plaza. We expect to complete it by January 2016.

### **Huai'an Powerlong Plaza (淮安寶龍廣場)**

Huai'an Powerlong Plaza is located in Huai'an, Jiangsu Province. This project is expected to consist of a commercial complex, retail stores and apartment suites. As of June 30, 2015, we had commenced construction of Huai'an Powerlong Plaza. We expect to complete it by December 2016.

## **SHANGHAI**

### **Shanghai Hongqiao Powerlong City (上海虹橋寶龍城)**

Shanghai Hongqiao Powerlong City is located in Shanghai Municipality. The project consists of apartment units, villas, retail shops, hotel style apartment suites, clubhouses and office units. As of June 30, 2015, we had commenced construction of Shanghai Hongqiao Powerlong City. We expect to complete it by December 2015.

### **Shanghai Caolu Powerlong Plaza (上海曹路寶龍廣場)**

Shanghai Caolu Powerlong Plaza is located in Shanghai Municipality. The project consists of office units, commercial complex, retail shops and a hotel. We completed the entire project in May 2015.

### **Shanghai Jiading Powerlong Plaza (上海嘉定寶龍廣場)**

Shanghai Jiading Powerlong Plaza is located at the center of the Jiading New Town in Shanghai Municipality. This project is expected to consist of a modern commercial complex comprising office units, shopping malls, dining and entertainment facilities and retail shops. As of June 30, 2015, we had commenced construction of Shanghai Jiading Powerlong Plaza. We expect to complete it in August 2016.

### **Shanghai Fengxian Powerlong Plaza (上海奉賢寶龍廣場)**

Shanghai Fengxian Powerlong Plaza is located at Nanqiao New Town, Fengxian District in Shanghai Municipality. This project is expected to consist of mid-to-high-end commercial complex comprising high-rise office buildings, shopping malls, and dining and entertainment facilities. As of June 30, 2015, we had commenced construction of Shanghai Fengxian Powerlong Plaza. We expect to complete it in January 2016.

### **Shanghai Baoshan Powerlong Plaza (上海寶山寶龍廣場)**

Shanghai Baoshan Powerlong Plaza is located in Baoshan, Shanghai Municipality. This project is expected to consist of a shopping mall and car park spaces. As of June 30, 2015, we had commenced construction of Shanghai Baoshan Powerlong Plaza. We expect to complete it in December 2015.

### **Shanghai Qingpu Powerlong Plaza (上海青浦寶龍廣場)**

Shanghai Qingpu Powerlong Plaza is located in Qingpu, Shanghai Municipality. This project is expected to consist of residential units, offices, commercial units, a hotel and car park spaces. As of June 30, 2015, we had commenced construction of Shanghai Qingpu Powerlong Plaza. We expect to complete it in 2017.

### **Shanghai Lingang Powerlong Plaza (上海臨港寶龍廣場)**

Shanghai Lingang Powerlong Plaza is located in Lingang, Shanghai Municipality. This project is expected to consist of serviced apartments, offices, commercial units, a post office and car park spaces. As of June 30, 2015, we had commenced construction of Shanghai Lingang Powerlong Plaza. We expect to complete it in July 2016.

### **Shanghai Qibao Powerlong City (上海七寶寶龍城)**

Shanghai Qibao Powerlong City is located in Qibao, Shanghai Municipality. This project is expected to consist of a commercial complex, shopping mall, office buildings, retail stores and a hotel. As of June 30, 2015, we had commenced construction of Shanghai Qibao Powerlong City. We expect to complete it in 2017.

### **Shanghai Wujing Powerlong Plaza (上海吳淞寶龍廣場)**

Shanghai Wujing Powerlong Plaza is located in Wujing, Shanghai Municipality. Phase I consists of retail shops and villas for office use. Phase II consists of a commercial complex, office buildings and a hotel. As of June 2015, we had commenced construction of Phase I and Phase II. We expect to complete it by October 2016.

## **SHANDONG PROVINCE**

### **Qingdao Chengyang Powerlong Plaza (青島城陽寶龍廣場)**

Qingdao Chengyang Powerlong Plaza is located in Chengyang central business district, Qingdao City, Shandong Province. This project consists of a large-scale multi-functional commercial complex, hotel style apartment suites, apartment suites, villas, retail shops, a high-quality hotel, apartment units and car parking. We completed Qingdao Chengyang Powerlong Plaza in December 2010.

### **Tai'an Powerlong Plaza (泰安寶龍廣場)**

Tai'an Powerlong Plaza is located in Tai'an City, Shandong Province. This project consists of a large-scale multi-functional commercial complex, hotel style apartment suites, villas, retail shops, a high-quality hotel and car parking. We completed Tai'an Powerlong Plaza in December 2010.

### **Yantai Haiyang Powerlong City (煙台海陽寶龍城)**

Yantai Haiyang Powerlong City is located in Yantai City, Shandong Province. Phase I consists of a hotel, villas, retail shop and car parking, Phase II consists of a high-quality hotel, hotel style apartment suites, retail shops, water park and car parking and Phase III consists of hotel style apartment suites and residential units. As of June 30, 2015, we had completed construction of Phase I and had commenced construction of Phase II of Yantai Haiyang Powerlong City. We expect to complete the entire project in 2016.

### **Qingdao Licang Powerlong Plaza (青島李滄寶龍廣場)**

Qingdao Licang Powerlong Plaza is located in Qingdao City, Shandong Province. This project consists of residential and commercial units, a multi-functional commercial complex, a hotel and car park. We completed construction of Qingdao Licang Powerlong Plaza in the fourth quarter of 2011.

### **Qingdao Jimo Powerlong Plaza (青島即墨寶龍廣場)**

Qingdao Jimo Powerlong Plaza is located in Jimo City, Qingdao, Shandong Province. Phase I consists of a shopping mall, retail shops and residential units and Phase II consists of hotel style apartments and residential units. As of June 30, 2015, we had completed construction of Phase I of Qingdao Jimo Powerlong Plaza. We expect to complete Phase II of Qingdao Jimo Powerlong Plaza by August 2014.

### **Yantai Penglai Powerlong Plaza (煙台蓬萊寶龍廣場)**

Yantai Penglai Powerlong Plaza is located in Penglai, Shandong Province. This project is expected to consist of a shopping mall, street shops, residential units and cultural facilities. As of June 30, 2015, we had commenced construction of Yantai Penglai Powerlong Plaza. We expect to complete the entire project in 2016.

### **Dongying Powerlong Plaza (東營寶龍廣場)**

Dongying Powerlong Plaza is located in Dongying City, Shandong Province. This project is expected to consist of residential and commercial units, offices, shopping mall and a hotel. As of June 30, 2015, we had commenced construction of Dongying Powerlong Plaza. We expect to complete the entire project in 2018.

### **Qingdao Jiaozhou Powerlong Plaza (青島膠州寶龍廣場)**

Qingdao Jiaozhou Powerlong Plaza is located in Sanlihe in Jiaozhou City, Qingdao, Shandong Province. This project is expected to consist of a city complex comprising shopping malls, commercial streets, retail shop. As of June 30, 2015, we had commenced construction of Jiaozhou Powerlong Plaza. We expect to complete the entire project by December 2015.

### **Qingdao Jiaozhou Powerlong City (青島膠州寶龍城)**

Qingdao Jiaozhou Powerlong City is located in Shaohai New Town in Jiaozhou City, Qingdao, Shandong Province. This project is expected to consist of a large-scale cultural and tourism complex, cultural facilities, a hotel, high-end residential buildings, a museum, a tourist center and a recreational vehicle park. As of June 30, 2015, we had commenced construction of Jiaozhou Powerlong City. We expect to complete the entire project by 2017.

### **Yantai Laishan Powerlong Plaza (煙台萊山寶龍廣場)**

Yantai Laishan Powerlong Plaza is located in Laishan, Shandong Province. This project is expected to consist of a commercial complex, retail shops, apartment suites, serviced apartments and office buildings. As of June 2015, we had commenced construction of Yantai Laishan Powerlong Plaza. We expect to complete the entire project by November 2016.

## **HENAN PROVINCE**

### **Zhengzhou Powerlong Plaza (鄭州寶龍廣場)**

Zhengzhou Powerlong Plaza is located in the center of Zhengdong New District near the central business district in Zhengzhou City, Henan Province. This project consists of a large-scale multi-functional commercial complex, hotel style apartment suites, retail shops and car parking. We completed Zhengzhou Powerlong Plaza in December 2008.

### **Luoyang Powerlong Plaza (洛陽寶龍廣場)**

Luoyang Powerlong Plaza is located in Luolong District, Luoyang City, Henan Province. Phase I consists of a wholesale market, apartment units and car parking, Phase II consists of part of a large-scale multi-functional commercial complex, apartment suites, retail shops and car parking and Phase III consists of part of a large-scale multi-functional commercial complex, apartment suites, retail shops and car parking. As of June 30, 2015, we had completed Phase I and Phase II of Luoyang Powerlong Plaza. We expect to complete construction of the entire project in 2017.

### **Xinxiang Powerlong Plaza (新鄉寶龍廣場)**

Xinxiang Powerlong Plaza is located in Xinxiang City, Henan Province. Phase I consists of apartment suites, retail shops and car parking, Phase II consists of a large-scale multi-functional commercial complex, a high-quality hotel, hotel style apartment suites, apartment units, retail shops and car parking space and Phase III consists of a high-quality hotel, retail shops, hotel style apartment units and an office building. As of June 30, 2015, we had completed construction of Phase I of Xinxiang Powerlong Plaza. We expect to complete Phase II by June 2016 and Phase III is held for future development.

## **ANHUI PROVINCE**

### **Bengbu Powerlong Plaza (蚌埠寶龍廣場)**

Bengbu Powerlong Plaza is located in the comprehensive development zone in the new downtown area of Bengbu City and at the geographical center of Bengbu City, Anhui Province. This project consists of a large-scale multi-functional commercial complex, apartment suites, villa, retail shops and car parking. We completed Bengbu Powerlong Plaza in June 2010.

### **Fuyang Powerlong Plaza (阜陽寶龍廣場)**

Fuyang Powerlong Plaza is located in Fuyang City, Anhui Province. Phase I consists of retail shops and apartment suites. Phase II consists of a commercial complex, office buildings, serviced apartments and a hotel. As of June 2015, we had commenced construction of Phase I and Phase II. We expect to complete it by the fourth quarter of 2017.

## **TIANJIN**

### **Tianjin Yujiapu Powerlong International Center (天津于家堡寶龍國際中心)**

Tianjin Yujiapu Powerlong International Center is located in Tianjin Municipality. This project consists of apartment suites, an office building, a shopping mall and car parking. As of June 30, 2015, we had commenced construction of Tianjin Yujiapu Powerlong International Center in October 2010. We expect to complete it by 2017.

### **Tianjin North Green Area (天津北綠地項目)**

Tianjin North Green Area is located in Tianjin Municipality. This project is expected to consist of commercial units and car park spaces. The area is held for future development.

### **Tianjin Powerlong City (天津寶龍城)**

Powerlong Powerlong City is located in Tianjin Municipality. This project consists of residential units, commercial units and car park spaces. As of June 30, 2015, we had commenced construction of Tianjin Powerlong City. We expect to complete it in 2017.

## **ZHEJIANG**

### **Hangzhou Xiasha Powerlong Plaza (杭州下沙寶龍廣場)**

Hangzhou Xiasha Powerlong Plaza is located in Hangzhou City, Zhejiang Province. This project consists of residential units, villas, furnished apartments, retail shops, a shopping mall. As of June 30, 2015, we had commenced construction of Hangzhou Xiasha Powerlong Plaza. We expect to complete it by June 2016.

### **Hangzhou Xiaoshan Powerlong Plaza (杭州蕭山寶龍廣場)**

Hangzhou Xiaoshan Powerlong Plaza is located in Hangzhou City, Zhejiang Province. This project is expected to consist of a commercial complex, retail units, apartment suites and a shopping mall. As of June 30, 2015, we had commenced construction of Hangzhou Xiaoshan Powerlong Plaza. We expect to complete it by 2016.

### **Hangzhou Binjiang Powerlong City (杭州濱江寶龍城)**

Hangzhou Binjiang Powerlong City is located in Hangzhou City, Zhejiang Province. This project is expected to consist of a commercial complex, retail units and high-rise office towers. As of June 30, 2015, we had commenced construction of Hangzhou Binjiang Powerlong City. We expect to complete it by 2017.

### **Hangzhou Fuyang Powerlong Plaza (杭州富陽寶龍廣場)**

Hangzhou Fuyang Powerlong Plaza is located in Hangzhou City, Zhejiang Province. This project is expected to consist of a commercial complex, residential units, retail units, apartment suites, a shopping mall and a hotel. As of June 30, 2015, we had commenced construction of Hangzhou Fuyang Powerlong Plaza. We expect to complete it by 2018.

## **CHONGQING**

### **Chongqing Hechuan Powerlong Plaza (重慶合川寶龍廣場)**

Chongqing Hechuan Powerlong Plaza is located in Chongqing Municipality. Phase I consists of residential units and retail shops and Phase II consists of a shopping mall, a hotel, residential units and an office building. As of June 30, 2015, we had completed construction of Phase I of Chongqing Hechuan Powerlong Plaza. We expect to complete the entire project by June 2017.

## **PROPERTY DEVELOPMENT**

Our business operations primarily involve the development and operation of high-quality, large-scale, integrated retail and residential complexes targeting retail property tenants and buyers. We also develop and sell quality residential properties targeting individual property buyers. We currently have operations in a number of cities in Fujian Province, Jiangsu Province, Shandong Province, Henan Province, Anhui Province and Zhejiang Province, as well as, Tianjin Municipality, Shanghai Municipality and Chongqing Municipality. Our projects typically comprise integrated retail and residential complexes. In certain selected cities, depending on location and the expected market demand, we may also include high-quality hotels or large-scale indoor amusement parks in our projects. We will continue to expand our business in the regions in which we currently operate as well as strategically expand into selected cities in other regions in China when opportunities arise.

## **PROJECT DEVELOPMENT PROCESS**

### **City and Site Selection**

We review cities and sites in China to identify potential development opportunities. Our board, our investment development center, our investment decision committee and certain senior management personnel are actively involved in the city and site selection process and closely follow our established site and city selection guidelines. Our investment development center consists of our market research and business development personnel and our investment decision committee consists of certain members of our board and senior management. Our directors and senior management personnel involved in city and site selection, including Hoi Kin Hong and Hoi Wa Fong have extensive experience in the PRC real estate industry. Our current projects are chosen after a thorough screening process comprising numerous site visits and thorough market research and analysis. Prior to purchasing a parcel of land, we collect all relevant information regarding the potential acquisition opportunity and conduct preliminary feasibility studies and market research to evaluate the potential risk and return of the investment, potential property demand in that area, preferences of the target customer groups and potential competition from other property developers in the vicinity. For our market research and analysis, we typically obtain information from research reports produced by independent third party market researchers and data compiled internally by our investment development division through their own research. We also rely on data extracted from official government publications and other publications produced by relevant industry associations.

Before we decide whether to expand into a city or acquire a site, we consider the compatibility of the acquisition opportunity with our overall investment strategy and objectives. We then draw up an initial project development blue print and conduct a preliminary feasibility study. If we are satisfied with the result of the feasibility study, we will continue with our due diligence investigations and conduct more detailed analysis of the acquisition. If the due diligence result is satisfactory, we will prepare a detailed project design and investment return analysis. This will then be passed to our investment development center for their review in preparation of a further feasibility study report. This report is submitted to our investment decision committee for final consideration and approval. We will proceed with the acquisition if we conclude from our evaluation procedures that a particular site has good development potential and an acceptable risk profile. We believe all these pre-purchase measures help us to acquire land prudently and develop our projects with a clear market positioning from the beginning. We have formulated a set of criteria in our city selection process, including:

- size and population of the city;
- general economic development;
- purchasing power of the residents;
- urban planning and development;
- local government administrative efficiency and service attitude;
- anticipated demand for private commercial and residential properties;
- future land availability; and

- overall competitive landscape.

We consider the following factors for site selection:

- site area and suitability for large-scale integrated commercial and residential development;
- location within the city;
- neighboring environment and public amenities such as transport;
- consumer behavior of residents and their way of life;
- infrastructure available or to be made available by the local government;
- government planning for the area; and
- overall cost structure of the potential development.

We believe the most important factor in our decision to undertake a property project investment is the relative land acquisition costs to expected selling prices and expected rental income to be derived from our tenants.

### **Land Acquisition**

Under current PRC laws and regulations, land use rights for property development must be granted by the relevant governmental authorities via public tender, auction or listing-for-sale. Listing-for-sale is where the grantor issues a listing-for-sale announcement specifying a set of land grant conditions. The conditions will be listed for a period within which bidders can make payment applications. The successful bidder to be granted the land will be announced at the end of the listing period. In an acquisition of land by tender, the relevant authorities will consider not only the tender price, but also the credit history and qualifications of the tenderer and its development proposal in deciding to whom to grant the land use rights. Grantees of land use rights may, however, dispose of the land use rights granted to them in private sales, subject to the terms and conditions of the land grant contracts and relevant laws and regulations. During the three years ended December 31, 2012 and December 31, 2013, December 31, 2014 and the six months ended June 30, 2015, we obtained most of our land through public tenders and listings-for-sale.

As a property developer and operator focusing on development and operation of high-quality, large-scale, integrated retail and residential complexes, we believe that acquiring land at competitive price is critical to our overall development strategy. We currently expect to build up sufficient land reserves to fulfill our development requirements for the next three years on a rolling basis. As of June 30, 2015, we had a total GFA of approximately 10.8 million square meters under development and held for future development. We continually search for land sites that meet our selection criteria.

We typically finance our land acquisition costs with cash generated internally from our operations. However, as we grow larger and gain more access to the debt and equity markets, we may also access the capital market and finance our land acquisition costs with debt and equity instruments.

### **Project Planning and Design**

Once a site is selected, we normally discuss our plans with local governments and provide them with ideas on how the site would be developed in a way that fits into the overall development plan of the city. Our project companies work closely with our internal planning and design department, our external designers and architects in master planning, architectural design, landscape design and interior design. All of these external designers and architects are independent third parties. To ensure that the project design of each of our projects reflects the positioning of our products, our senior management team actively participates during the whole process, especially in the master planning and architectural design of our projects. Upon completion of our properties that are built for rental purposes, we may also render design support and fit-out work for our tenants. However, we do not directly carry out any actual design and fit-out work for our tenants. Our tenants may submit their interior design and fit-out specifications and requirements to us and we will review the submission to determine whether it is in line with the

overall style of our project, particularly, the commercial complex. We will assist our tenants to carry out their interior design and fit-out if we approve of their plans.

In determining the design of our projects, we consider:

- the environment surrounding the site;
- local government planning and development requirements or restrictions for the site;
- advice provided by our professional advisors, including architects, planning experts and sales and marketing personnel;
- type of buildings to be developed; and
- requirements and preferences of our principal anchor tenants.

### **Project Management**

We develop and manage our projects through our wholly owned or majority owned regional project companies in the regions in which we have operations. These project companies are responsible for managing the day-to-day operations of each project, including executing plans and standards set by our project management team in the Shanghai headquarters, overseeing construction on site and managing minor design modifications. Our project management team at our Shanghai headquarters is responsible for developing the project development master plan, setting technical and cost specifications, selling prices, overall rental and sale strategies and procurement of the main construction materials and key equipment. Our project management team at our Shanghai headquarters coordinates its efforts with the project companies through detailed project development plans and regular meetings. The project development plans set out allocation of work and performance targets. Any issues or potential problems are identified and discussed at our internal meetings to ensure prompt resolution. In order to ensure that the projects are completed on a timely basis and within the relevant budget, we monitor the progress of the construction of our projects through the monthly planning and progress review to identify areas that may hinder the progress of the projects. In addition, we monitor the cost of our project developments through monthly cost audits to identify any cost items that may exceed the original budget and thus need to be adjusted. We adhere to our budget and design specifications to minimize changes to our overall project plan.

### **Project Construction**

Our construction work is outsourced to independent construction companies, which are selected through a tender process. We typically invite a minimum of three qualified construction companies to bid for a construction project through a tender by invitation process. We have established a selection procedure to choose our construction contractors in order to ensure compliance with our quality and workmanship standards. The selection procedure involves detailed due diligence work on the contractors during the bidding process before offering the construction contract to them. We typically take into account the contractor's professional qualifications, reputation in the industry, track record, past co-operation with us, financial condition and technical abilities. Our tender and bidding committee, which is comprised of certain members of our board and senior management with tender and bidding, budget and cost control experience in the real estate industry, including Hoi Kin Hong, Hoi Wa Fong and Shi Sze Ni, carefully evaluates the suitability of each potential contractor and determines who we award the contract to. We also review the qualifications and performance of our construction contractors on an annual basis. Under relevant PRC laws and regulations, construction contractors need to have obtained the relevant construction qualification certificates for the type of construction work they carry out before they can undertake such property construction work.

Under our typical construction contracts, we are primarily responsible for preparatory construction work, including resident relocation (if applicable), utilities connection and road construction. The contractor is typically obliged to undertake the construction work in strict compliance with our designs and requirements, and to provide regular progress reports (typically once a week) which enable us to closely monitor the construction progress. Contract payments may be made on a fixed-price, adjustable-price or costs-plus-remuneration basis. Pre-payments are made seven days prior to the proposed commencement date and are deducted during the course of the construction. Further stage construction payments are made upon completion of each specific stage.

Our contractors are typically responsible for procuring the construction materials to be used in our projects, but in certain circumstances, we may specify the supplier, brand and manufacturer of construction materials in order to ensure that they meet our particular requirements. We typically procure other key materials and equipment such as steel, escalators, lifts and air conditioning units ourselves. In relation to some these self-procured materials and equipment, we enter into a tripartite supply agreement with the construction contractor and the materials supplier, under which we are responsible for negotiating the price and the materials supplier is responsible for supplying the materials to the construction contractor. We generally determine whether to procure the construction materials ourselves depending on whether such materials are key materials in our construction process and whether they contribute to a significant proportion of our construction materials costs (for example, steel, lifts and air conditioning units). Under the construction contracts with our contractors, materials procured by our contractors are subject to approval by our on-site engineer and supervisory engineer before they are used in our projects.

We finance construction costs primarily with internal funds, proceeds from pre-sales and bank borrowings. Our financing methods vary from project to project and are subject to limitations imposed by PRC regulations and monetary policies.

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

The construction contracts we enter into with construction companies typically contain warranties with respect to quality and timely completion of the construction projects. We require construction companies to comply with PRC laws and regulations relating to the quality of construction as well as our own standards and specifications. In compliance with PRC laws and regulations, we also engage certified construction supervision companies to monitor certain aspects of our project construction as specified by the relevant laws and regulations. These construction supervision companies conduct quality and safety control checks on all building materials and workmanship on site. They also monitor the progress of construction, work site safety and construction completion schedule. Under relevant PRC laws and regulations, the construction supervision companies are required to obtain supervision qualification certificates in order to be able to carry out supervision work on construction sites during different stages of project construction. Fees paid to the construction supervision companies are determined based on a negotiated percentage of the total construction cost of a project. We typically make monthly payments to the construction supervision company until approximately 80% of the contract sum is paid. The remaining amount is settled within 30 days after the project has passed the requisite completion acceptance inspections.

The contractors are also required to comply with our quality control measures, such as the appointment of on-site project representatives to oversee the progress, quality and safety of the construction work, pre-examination of construction materials before they are used in the project, and on-site inspections. Although we experienced occasional delays in construction and unsatisfactory workmanship during the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, they were rectified in a timely manner and we did not suffer any material adverse impact with respect to our projects or our results of operations.

Our construction contracts generally provide for progressive payments according to milestones reached, until approximately 80% of the total contract sum is paid. We will settle 15% of the remaining contract fee after the project has passed the completion acceptance inspection. We typically withhold the final 5% of the contract fee for a number of years after completion of construction to give additional assurance and cover any contingent expenses incurred as a result of any construction defects. The unused portion of such warranty fee or retention money will be returned to the contractors after the expiration of the warranty period. Warranty periods typically range from one to two years depending on the type of construction. We believe the amount of retention money we withhold under our construction contracts is in line with industry practice and our directors are of the view that such retention money is sufficient to cover the construction warranties we give to our customers under the sale and purchase agreements.

### **Pre-sales**

Like other developers, we pre-sell properties prior to the completion of their construction. According to the Urban Real Estate 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), property developers must



satisfy specific conditions before they can pre-sell their properties under construction. These mandatory conditions include the following:

- the land premium must have been paid in full;
- the land use rights certificate, the construction land use planning permit, construction planning permit and the construction commencement permit must have been obtained;
- at least 25% of the total project development investment must have been made;
- the progress and the expected completion and delivery date of the construction must be properly ascertained; and
- the pre-sale permit must have been obtained.

These mandatory conditions are designed to impose a restriction on developers with respect to when pre-sales can commence. They are predicated on substantial progress in project construction and in capital expenditure. Generally, local governments also require developers and property purchasers to use model sale and purchase agreements prepared under the auspices of the government. Developers must file all sale and purchase agreements with local land resources bureaus and state administrations within 30 days of entering into such contracts.

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

Local governments may have additional conditions for commencing pre-sales of properties. According to relevant regulations applicable in Zhengzhou City, Henan Province, we must also satisfy the following conditions before we can commence pre-sale of properties:

- for a building that is no more than six storeys, the main structural construction has been completed with respect to at least two storeys (including basement);
- for a building that is between seven and 12 storeys, the main structural construction has been completed with respect to at least three storeys (including basement);
- for a building that is more than 12 storeys, the main structural construction has been completed with respect to at least five storeys; and
- a special property pre-sale account has been set up at a commercial bank in the place where the project is located, and an agreement in relation to the supervision of pre-sale bank account has been entered into.

In addition, in relation to our project in Shandong Province, we must ensure that all foundation construction work is completed before we may start pre-sale. In relation to our projects in Wuxi City, we must finish the preliminary connection work of utilities (including water and electricity) before we may commence pre-sale.

We had satisfied the above pre-sale conditions before we started pre-selling the properties we developed. Other than Zhengzhou City, Shandong Province and Wuxi City, we are currently not aware of any additional conditions in the cities where we have property projects which we need to comply with in relation to the pre-sale of properties.

Prior to the commencement of pre-sales, we set up separate pre-sale bank accounts into which all the pre-sale proceeds from a particular project are paid. We make payment to the construction contractors and suppliers of construction materials according to the progress of construction work. We have complied

with the relevant statutory requirements for pre-sales, including but not limited to, applying the pre-sale proceeds only towards the settlement of the construction costs and other costs of the relevant projects pre-sold.

In determining the selling prices of our properties, we conduct market research and prepare a selling price recommendation report taking into account the prices of properties with similar quality in the surrounding areas, construction costs, construction schedule and other investment return considerations. The selling price recommendation report is then submitted to our sales and marketing team for review before it is given to our president for final approval. After the property sales process has commenced, we continue to review and make any necessary adjustments to the selling prices based on market conditions, customer reactions and the selling prices of competing properties in the vicinity.

## **Sales and Marketing**

We maintain a centralized marketing and sales force for all of our development projects in China. Our marketing and sales team conducts the sales and marketing activities for most of our property projects but we also employ external professional property sales agencies from time to time such as branch companies of E-House (China) Holdings Limited, one of the largest property agency and consulting firms in the PRC and a company listed on the New York Stock Exchange, to provide sales and marketing services for certain of our property projects. We believe this approach ensures consistency in our promotion and sales strategy on a nationwide basis. Our centralized marketing team formulates our nationwide marketing strategies and coordinates our promotion activities across the cities in which we operate. The majority of our other sales and marketing staff have approximately three years of industry experience and generally have a good understanding of the local real estate market in the cities where we operate. We offer our local sales and marketing personnel performance-based remuneration packages according to the pre-determined sales target we set for each of our projects as well as other qualitative factors. Our sales and marketing staff at our headquarters also receive bonuses determined based on our overall performance in a particular year. Their responsibilities include market research, brand promotion, sales planning, property pricing and sales management. We train and use our own sales force rather than rely on outside brokers and agents for most of our projects. We believe our own dedicated sales representatives are better positioned to serve our customers and to control our property promotion and selling expenses.

Our sales and marketing staff cooperate closely to determine the appropriate advertising and selling plans for a particular project. They also conduct market research, formulate sales, pre-sales and pricing strategies and plan and organize on-site sale and pre-sale procedures. Our promotion channels include billboard advertisements, promotion over the visual and print media, and model display. As part of our marketing strategy, we organize potential customers to visit our completed projects. These showcase visits facilitate the sales of our properties and help to promote our brand.

Our target rental customer group is retail, hospitality, recreation and entertainment services providers and other business entities looking to lease quality premises in attractive locations. We also sell some of our retail properties if we believe such sale will generate better returns on our investment. We target sales of our residential properties at mid to high income individuals.

Most of the customers of our residential properties purchase our properties with mortgage loans. As is customary in the PRC property industry, we provide guarantees to mortgagee banks in respect of the mortgage loans provided to the purchasers of our residential and retail properties up until we complete the construction of the relevant properties and the property ownership certificates and certificates of other interests with respect to the relevant properties are delivered to the mortgagee banks.

## **Payment Arrangements**

Purchasers of our residential properties, including those purchasing pre-sale properties, may pay us using mortgage loans from banks. We typically require our purchasers to pay a nominal non-refundable deposit upon entering into provisional purchase contracts. If the purchasers later decide not to enter into formal sale and purchase agreements, they will forfeit such deposits. Upon executing the formal sale and purchase agreements, the purchasers are typically required to pay not less than 30% of the total purchase price of the property within five days, and the mortgagee banks will pay the remaining balance once the customers have completed the mortgage application procedures. If the purchasers choose to fund their purchases with mortgage loans provided by banks, it is their responsibility to apply for and obtain the mortgage approvals although we will assist them on an as needed basis. The payment terms of sales and pre-sales of properties are substantially identical.

Most of our customers purchase our properties with the assistance of mortgage financing. In accordance with industry practice in China, we provide guarantees to mortgagee banks in respect of the mortgage loans provided to the purchasers of our pre-sold properties. Under the guarantees, we are required to guarantee the timely repayment of the principal and interest amount of the loans by the purchasers. As a guarantor, we are jointly responsible for the payment of the mortgage loan. These guarantees are released upon the earlier of (i) the relevant property ownership certificates being delivered to the purchasers; and (ii) the settlement of mortgage loans between the mortgagee banks and the purchasers of our properties. In line with industry practice, we do not conduct independent credit checks on our customers but rely on the credit checks conducted by the mortgagee banks. See “Risk Factors — Risks Relating to Our Business — We guarantee mortgage loans of our customers and may become liable to mortgagee banks if customers default on their mortgage loans.”

### **Delivery and After-sales Services**

We endeavor to deliver our products to our customers on a timely basis. We closely monitor the progress of construction of our property projects as well as conducting pre-delivery property inspections to ensure timely delivery. The time frame for delivery is set out in the sale and purchase agreements entered into with our customers. Once a property project has passed the requisite completion acceptance inspections and obtained the relevant completion acceptance certificate and other government certificates necessary for delivery, our customer service staff will notify our customers in respect of delivery. Our sales and marketing staff, our construction team, together with staff of the property management company, will inspect the properties prior to delivery to ensure quality. If we fail to deliver the property to our customers within 60 days of the date of delivery stipulated in the sale and purchase agreement, we will be liable to pay a monetary penalty of 0.01% of the pre-sale proceeds per day. When we deliver the completed properties to our customers, we are also required to deliver the building quality guarantee certificate (住宅質量保證書). After delivery of completed properties, we are then required to assist our customers with obtaining the property ownership certificates by providing all requisite information to the local titles office for registration.

Our customer service department is responsible for managing our after-sales services. We offer communication channels to our customers for them to provide their feedback and complaints about our products or services, including a telephone hotline and a customer service center at our head office. Our property management companies also handle customer complaints.

### **Property Management**

Prior to delivery of properties to our customers, we engage our wholly owned property management subsidiaries to manage our residential properties and retail properties. After the delivery of properties to customers, with a view to ensuring quality in property management, we continue to engage the same property subsidiaries to provide property management services to customers until the owners of the relevant project developments have become entitled to elect their own property management companies. The services provided by our property management companies include security, property maintenance, gardening and other ancillary services. As of June 30, 2015, owners of all of our developments who had become entitled to elect their property management companies continued to choose our wholly owned property management subsidiaries to manage their properties. As of June 30, 2015, we had not experienced any incident where the owners of our properties terminated the property management services of our property management companies. Our property management companies provide property management services exclusively to properties we have developed.

Our property management companies typically enter into property management agreements with the property owners. The property management contract sets forth the scope and the quality requirements of the services provided by our property management companies. We are not allowed to assign the management responsibilities to a third party without the prior consent of property owners. We are responsible for establishing the property management procedures and preparing maintenance and renovation plans with respect to the properties and public facilities. The property management contract also sets forth the payment arrangements of management fees, which cannot be increased without the prior consent of the property owners. Property management fees are determined with reference to prevailing market rates as decided by the relevant government authorities. The amount of fees payable by each property owner depends on the GFA of their properties under management. Our property management companies issue monthly invoices to the property owners and the management fees are generally settled on a monthly basis.

## INVESTMENT PROPERTIES

Our property investment objective is to achieve recurring rental income and long-term capital appreciation through increases in the value of our properties. We expect to realize our investment objective through the development, sale, management and operation of property projects in China. Our policy is to maintain a balanced portfolio of properties developed for sale, consisting of residential properties, and properties held for lease, consisting of retail properties. We intend to hold an increasing proportion of GFA in the retail properties we have developed as investment properties. As we plan to increase our portfolio of investment properties, revenue from, and profit contributions of, investment properties are expected to increase in the future.

### Tenants and Leases

We retain ownership of a portion of the GFA of our commercial complexes. We seek to maintain long-term relationships with our anchor tenants and to maintain a good balance in tenant composition. We have a leasing department which is responsible for formulating the strategies for our rental properties, such as conducting research to enhance the tenant profile and trade mix. We seek tenants who can help us to promote the image of our rental properties and we take into account the following factors when selecting potential tenants:

- reputation and general brand recognition;
- goods and services offered;
- track record and past relationship with us; and
- potential level of lease payments.

Our commercial complex leases for smaller tenants are generally for terms of 24 to 36 months with annual rent reviews indexed to the consumer price index or fixed percentage increases and typically require security deposits of two months' rent. If there are anchor tenants taking comparatively large areas at more than one of our commercial complexes, or whose presence is expected to attract other tenants, we may consider offering them leases for terms of between 10 to 20 years with fixed rent provisions. We typically enter into a memorandum of understanding with anchor tenants six months prior to the opening of our commercial complexes.

Rents are typically determined based on prevailing market rates, and the rents payable by our retail tenants sometimes include a turnover component. Rental payments for these leases consist of a monthly base rent and a turnover component calculated annually in accordance with the revenue of a particular tenant for that particular year. We typically require the annual turnover to be verified by an independent third party auditor. Our tenants are generally charged a monthly property management fee. Property management fees are determined according to market conditions and the requirements of the project under management. They are calculated on a per square meter basis and are paid monthly to our property management company. Tenants are also required to pay their own utility charges.

Under the lease agreements we enter into with our tenants, if our tenants terminate the lease without cause before the expiry of the lease term, we are entitled to retain their lease bond and they are liable to pay us a default penalty. Such default penalty is typically equivalent to two months' rent, but may vary depending on the term of the lease. In addition to the default penalty, we are entitled to rely on other contractual remedies available to us to recover all losses we suffered exceeding the default penalty under the lease agreements as a result of the early termination by the tenants.

We regularly monitor the performance of the tenants of our retail complexes. We carry out site inspections to inspect the day-to-day operations of our tenants. We also have service desks in our retail complexes to handle suggestions or complaints from our customers and we liaise with local government consumer associations to gain customer feed back on our tenants. In addition, we hold meetings from time to time with our tenants to discuss any issues they may have. We also monitor our tenants' rental payment track record to assess their business and financial performance. We may elect not to renew the leases of retail tenants whose performance is not meeting our expectation in order to improve our rental income.

As of June 30, 2015, none of our major tenants had defaulted on their rental payments, terminated their lease agreements with us prior to expiry or were in breach of the tenancy agreements in any material

respects. To our best knowledge, we are not aware of any circumstances that may lead to a default in rental payment or early termination of tenancy agreements in relation to any of our major tenants.

## **HOTEL DEVELOPMENT**

We believe the demand for high-quality hotels in Suzhou City, Qingdao City, Yantai City, Tai'an City and Yancheng City will increase as their economies continue to grow.

As of June 30, 2015, we owned six hotels:

- three star-rated hotels (namely, Four Points by Sheraton Qingdao, Four Points by Sheraton Tai'an and Four Points by Sheraton Taicang);
- two mid-range hotels (namely Aloft Haiyang Hotel and Aloft Yancheng Hotel); and
- one self operated hotel (namely, ARTEL Powerlong Qingdao).

We also operated (but do not own) a hotel in Shandong Province (namely Shandong Penglai Powerlong Inn).

Four Points by Sheraton Taicang (in Suzhou Taicang Powerlong Plaza), which commenced operations in July 2010, has around 450 guest rooms. Four Points by Sheraton Tai'an (in Tai'an Powerlong Plaza, which opened in December 2010), Four Points by Sheraton Qingdao (in Qingdao Chengyang Powerlong Plaza, which opened in February 2011), Aloft Haiyang Hotel (in Shandong Haiyang Power Plaza, which opened in July 2011), ARTEL Powerlong Qingdao (in Qingdao Licang Powerlong Plaza, which opened in February 2012) and Aloft Yancheng Hotel (in Yancheng Powerlong Plaza, which opened in December 2013) each has around 300 guest rooms.

Four Points by Sheraton Taicang (in Suzhou Taicang Powerlong Plaza), Four Points by Sheraton Qingdao (in Qingdao Chengyang Powerlong Plaza) and Four Points by Sheraton Tai'an (in Tai'an Powerlong Plaza) are equipped with ancillary facilities commonly associated with five-star hotels, such as swimming pools, ball rooms, club houses, restaurants, retail shops and other entertainment facilities.

We have entered into operating agreements with a member of the Sheraton hotel group to operate five of our hotels. Each operating agreement has a 10 or 15-year term (or longer) commencing on the date of the opening of the respective hotel and ending on its tenth or fifteenth full operating year. The investment returns from hotel developments are generally realized at a later time than other types of property developments.

We believe that by entering into long-term agreements with Sheraton and engaging it to operate our hotels, we will be able to benefit from its global reputation, hotel operation experience as well as its integrated marketing services, global reservation systems and employee training programs. Moreover, we are also able to leverage Sheraton's internationally recognized brand name to enhance our reputation and corporate image. We believe this will help us to achieve attractive returns on our investments. Pursuant to the hotel operating agreements that we have entered into, Sheraton will operate our hotels at a level of service and quality in conformity with other international hotels operating under the same brand name. Sheraton will receive a monthly fee in consideration of its management and operation services. This fee is calculated based on a fixed percentage of the revenue from the operations of each of our hotels for each month and a progressive percentage of the amount by which such revenue exceeds all ordinary and necessary expenses incurred in the operations of such hotels for each calendar year during the terms of the relevant operating agreement. After the payment of this fee and deduction of all necessary reserves, we are entitled to all the profits and losses of our hotels. As the owner of these properties, we will review and approve the operating plans of the hotels proposed by Sheraton. We will also participate in, and approve major decisions regarding, the financial and operational financial management of, the relevant hotels.

We are responsible for hiring all our hotel staff, but Sheraton has the right to nominate certain senior management and key executives for the hotels operated by them. We are entitled to veto up to three such candidates nominated by Sheraton. Under the hotel operating agreements, we jointly establish key performance indicators with Sheraton in order to assess Sheraton's performance. In addition, we have the right to veto the management plans of the hotels proposed by Sheraton within 30 days of receiving the initial proposal.

## **PROPERTIES USED BY US**

We used office spaces owned by Xiamen Powerlong Information, with a total GFA of 3,093 square meters, at Powerlong Center, 305 Jiahe Road, Xiamen City as our headquarters for no consideration from August to December 2007 as we were in a transitional period pending the completion of our corporate reorganization. We entered into a lease agreement in January 2008 and have started paying rent to Xiamen Powerlong Information. In February 2010, we leased our headquarters properties in Changning District, Shanghai, from an independent third party.

As of June 30, 2015, these lease agreements had not been registered because the lessors had not applied to have the leases registered. Given that the lessors' application and assistance are necessary for the registration of leases under the applicable PRC laws and regulations, we are unable to unilaterally register such leases despite our request and efforts to have them registered on time. Our PRC legal counsel, Commerce & Finance Law Offices, has confirmed that the requirement for the leases to be registered is an administrative measure, the non-compliance of which may result in an administrative penalty but does not affect the validity of the leases. Accordingly, we believe that our continued use of the premises would not be affected by a delay to register the leases by the lessors and that if our rights as lessee are adversely affected by the lessors' failure to register the leases, we will seek recourse from the lessors under the lease agreements. The Hoi family as our controlling shareholders have also undertaken to indemnify us in the unlikely event that we suffer any loss as a result of the unregistered leases. We believe that if we are unable to renew these leases upon expiry, our business operations would not be adversely affected as we may find alternative venues for our staff dormitories.

## **BUSINESS MANAGEMENT**

As a result of our recent business expansion, we have taken the following measures to maintain effective management of our business:

- as of June 30, 2015, we had 6,973 full-time employees in business operations. We plan to recruit additional employees if our business operation so requires;
- upgraded our Kingdee K3 Enterprise Resources Management System, with which we have formulated a five-year development plan, annual budget and quarterly budget on a rolling basis;
- outsourced certain services to external service providers to streamline our operations and reduce costs, such as outsourcing our project design and certain interior decoration work to external design firms and interior decoration companies;
- adopted a centralized accounting system and stringent budget control to closely monitor our capital and cash positions and to manage our financial resources more effectively;
- established our e-commerce platform;
- established an asset management system; and
- established Powerlong Business School.

## **EMPLOYEES**

As of June 30, 2015, we had 6,973 full time employees. We have not experienced any significant problems with our employees or disruption to our operations due to labor disputes nor have we experienced any difficulty with the recruitment and retention of experienced staff. Our directors believe that we maintain a good working relationship with our employees.

## **Share award scheme**

We adopted a share award scheme (the “Scheme”) pursuant to a board resolution passed on December 2, 2010. The purpose of the Scheme is to: (i) motivate and recognize the contributions of our employees and increase our employee retention rate, (ii) attract suitable personnel for further development of the Company and (iii) provide employees with a direct economic interest in attaining a long-term relationship with the Company. The Scheme entitles any of our employees who, in the opinion of the board of directors, will significantly contribute or have contributed to the Company to participate.

Pursuant to the rules of the Scheme, shares of HK\$0.01 each in capital of the Company will be acquired by an independent trustee, HSBC Trustee (Hong Kong) Limited, at the cost of the Company and be held in trust for employees who hold the share awards as selected by the board of directors. The shares awarded pursuant to the Scheme will be held in trust until the end of each vesting period. Vested shares will be transferred to the selected employee at no cost. The number of shares to be awarded under the Scheme throughout the duration of the Scheme is limited to 2% of the issued share capital of the Company as of the adoption of the Scheme.

The Scheme will be subject to the administration of the board of directors or the executive committee acting on behalf of the board of directors, which, in accordance with the rules of the Scheme, consists of members of the remuneration committee, the chairman of the board of directors and an independent non-executive director of the Company.

The Scheme will terminate six years from its adoption or on a date as determined by the board of directors. Upon termination, all awarded shares and the related income derived from the shares will become vested in the selected employee. Awarded shares, related income which is not vested and/or forfeited in accordance with the rules of the Scheme and non-cash income remaining in the trust fund will be sold by the trustee. Net sale proceeds from such sale together with the residual cash and other funds remaining in the trust will be remitted to the Company after the sale. On June 6, 2013 and May 29, 2014, a committee established by the Board (the “Committee”) resolved to grant awarded shares (the “Awarded Shares”) to certain eligible employees pursuant to the rules under the Scheme. See “Management — Compensation of Directors — Directors’ Interests in Securities.”

## **COMPETITION**

We compete with other real estate developers in a number of areas including product quality, service quality, price, financial resources, brand recognition, ability to acquire proper land reserves and other factors. Our existing and potential competitors include major domestic integrated commercial property developers and, to a lesser extent, foreign developers. These competitors may have better track records, greater financial, human and other resources, larger sales networks and greater brand recognition.

However, we believe that we have particular competitive advantages in Fujian Province as it is our home base where we developed our earlier property projects and where we have in-depth market knowledge. In regions where we have no prior property development experience, we compete on the basis of our brand name and the strong relationships with our anchor tenants. We believe the barriers to entry into the property markets in Fujian, Jiangsu and Shandong Provinces are relatively higher than those in Henan and Anhui Provinces as the land acquisition costs, capital requirement and property development experience required in Fujian, Jiangsu and Shandong Provinces are generally higher. See “Risk Factors — Risks Relating to the Property Development Industry in China — Intensified competition may adversely affect our business and our financial position.”

## **INTELLECTUAL PROPERTY RIGHTS**

The Xiamen Powerlong Group has registered the trademarks of and with the PRC Trademark Office under various categories including property development, construction, property lease, real estate agency and hotels. We have entered into a trademarks license agreement with Xiamen Powerlong Group date September 4, 2009, pursuant to which Xiamen Powerlong Group has granted to us an irrevocable and exclusive right to use the trademarks and in our property development business and our other ancillary businesses. Our directors are of the view that we did not suffer any infringement of our intellectual property rights by any third parties as of the date of this offering circular and we confirm that we did not violate any intellectual property rights of third parties as of the date of this offering circular.

## INSURANCE

In accordance with the typical contractual terms we enter into, construction companies are responsible for quality and safety controls during the course of construction and are required to maintain accident insurance for their construction workers pursuant to PRC laws and regulations. To help ensure construction quality and safety, we have a set of standards and specifications for the construction workers to follow during the construction process. We engage qualified supervision companies to oversee the construction process. Under PRC laws, the owner or manager of properties under construction bears civil liability for personal injuries arising out of construction work unless the owner or manager can prove that it is not at fault. In addition to requiring the construction workers to follow our standards and specifications, we also take other precautionary measures such as erecting temporary protection walls around the work site to prevent unauthorized access, ensuring stairwells and lift wells are secured, conducting regular safety checks on cranes and lifts and erecting warning signs near hazardous areas. Since we have taken a number of reasonable steps to prevent construction accidents and personal injuries, we believe that we will generally be able to demonstrate that we were not at fault as the property owner if a personal injury claim is brought against us. We believe that we have sufficient insurance coverage in place and that the terms of our insurance policies are in line with industry practice in the PRC. We may re-evaluate the risk profile of the property markets and adjust our insurance practice from time to time.

See “Risk Factors — Risks Relating to Our Business — We may suffer certain losses not covered by insurance.”

## ENVIRONMENTAL AND SAFETY MATTERS

We are subject to PRC environmental and safety laws and regulations promulgated by both the central and local governments. The laws and regulations governing the environmental requirements for real estate developments in the PRC include the Environmental Protection Law (中華人民共和國環境保護法), the Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例). Pursuant to those laws and regulations, an environmental impact assessment report is required to be submitted to the relevant government authorities for approval before commencement of construction, and each project developed by a property developer is required to undergo an environmental assessment. We have applied for the approval of environmental impact assessment or completion approval of environmental inspection for certain of our projects as of the date of this offering circular. When there is a material change in respect of the construction site, or in the scale or nature of a given project, a new environmental impact assessment report must be submitted for approval. Although property development is generally regarded as low polluting, during the course of construction of a project, there may be an increased amount of dust around the site, increased noise pollution, and increased waste water and solid construction waste. In each of these cases, our construction contractors, as part of the responsibilities under their contracts, are responsible for taking action to dispose of waste, to keep dust levels low and to control noise pollution.

Upon completion of each property project, the relevant PRC government authorities will also inspect the property site to ensure that we have complied with the applicable environmental and safety standards. Inspection of each completed property project carried out by the relevant PRC government authorities to date has not revealed any environmental liability which we believe would have a material adverse effect on our business operations or financial condition. During the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, we did not experience any material environmental pollution incident and there was no penalty imposed on us for violation of environmental laws and regulations. We believe we are in compliance with PRC safety regulations and that we did not have a record of any material non-compliance during the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015. See “Risk Factors — Risks Relating to the Property Development Industry in China — Failure to comply with our environmental and social responsibilities may adversely affect our operations and profitability.”

We cannot predict the impact of unforeseeable environmental contingencies or new or changed laws or regulations on our existing projects or properties that we may develop in the future. We intend to prevent any potential future environmental risks by continuing to comply with relevant PRC environmental laws and regulations, engaging only reputable construction contractors with good environmental protection and safety track records and requiring the construction contractors to strictly comply with relevant law and regulations in materials procurement and property construction. We will also continue to educate our employees in relation to the importance of environmental protection and keep abreast of developments in PRC environmental protection laws and regulations through regular dialogue with the relevant local PRC authorities.



## **LABOR, HEALTH AND SAFETY MATTERS**

In respect of social responsibilities, in particular, labor, health and safety insurance, pursuant to the regulations of the Labor Contract Law of the People's Republic of China (中華人民共和國勞動合同法) and its implementation regulations, the Labor Law of the People's Republic of China (中華人民共和國勞動法) and Opinions on Several Questions concerning the implementation of the Labor Law of the People's Republic of China (關於貫徹執行(中華人民共和國勞動法)若干問題的意見), an enterprise is required to execute an employment contract with each employee according to law and shall not rescind the employment contract without cause. Employees are entitled to have rest and annual leave according to the laws and provisions stipulated in an employment contract. An enterprise is required to have health and safety policies and provide health and safety training to its staff. It is also required to provide its staff with a safe and hygienic working environment as well as any protective equipment if necessary. Pursuant to the regulations of the Decision of the State Council on Establishing the Basic Medical Insurance System for Urban Employees (國務院關於建立城鎮職工基本醫療保險制度的決定), Decision of the State Council on Establishing a Uniform Basic Endowment Insurance System for Enterprise Employees (國務院關於建立統一的企業職工基本養老保險制度的決定), the Provisional Insurance Measures for Maternity of Enterprise Employees (企業職工生育保險試行辦法), Regulations on the Management of Housing Provident Fund (住房公基金條例), Regulations on Unemployment Insurance (失業保險條例), Regulations on Industrial Injury Insurance (工傷保險條例) and Social Insurance Law 《社會保險法》 which will take effect on July 1, 2011, an enterprise is required to purchase basic medical insurance, pension insurance, maternity insurance, unemployment insurance, and personal injury insurance for its staff and pay the relevant insurance premiums according to law.

As of the date of this offering circular, there was no material violation of currently applicable PRC labor, health and safety regulations, nor were there any material employee safety issues involving us. We intend to fully comply with the new PRC labor contract laws and do not expect such compliance to affect our business operations in any material respect. We believe that by protecting the interests of our employees, we are able to enhance employee morale and long-term retention of quality personnel.

In order to comply with the relevant laws and regulations, we participate in various defined retirement contribution plans organized by the PRC provincial and municipal governments for our employees. We pay on behalf of our employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, personal injury insurance and housing provident fund. Our human resources department personnel look after our labor, health and safety issues. They generally have sound knowledge of administration and human resources issues. They work together with our legal department to better understand the latest legal developments in this area and to ensure that we are in compliance with the relevant requirements.

In relation to workplace safety around construction sites, we, as a property developer, have limited potential liabilities to the workers on our construction sites, most of which rest with the construction contractors. When entering into contracts with contractors, we require them to purchase accident insurance according to applicable laws and regulations to cover their workers and adopt effective occupational safety control measures, such as providing workers with necessary protective equipment and offering them regular medical examinations and workplace safety training.

## **LEGAL PROCEEDINGS AND MATERIAL CLAIMS**

We are involved in legal or other disputes in the ordinary course of our business from time to time, primarily claims relating to our guarantees for mortgage loans provided to purchasers of our properties and contract disputes with purchasers and tenants of our properties. Furthermore, as a company listed on the Hong Kong Stock Exchange, we are subject to regulation by, among others, the Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong. However, we are not implicated in any outstanding material legal proceedings or claims or regulatory investigations currently existing or pending against us and are not aware of any such threatened claims or investigations. We confirm that we have no material claims outstanding with regard to guarantees for mortgage loans provided to purchasers and contract disputes with purchasers and tenants of our properties. See "Risk Factors — We may be involved in disputes, legal and other proceedings arising out of our operations from time to time and may face significant liabilities as a result."

## REGULATION

The following discussion summarizes the principal laws, regulations, policies and administrative directives to which we are subject.

### **The PRC Legal System**

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court verdicts do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil and criminal matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annual administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative bodies which promulgate such laws.

### **The PRC Judicial System**

Under the PRC Constitution and the Law of Organization of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts.

The local courts are comprised of the basic courts, the intermediate courts and the higher courts. The basic courts are organized into civil, criminal, economic and administrative divisions. The intermediate courts are organized into divisions similar to those of the basic courts, and are further organized into other special divisions, such as the intellectual property division. The higher level court supervise the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Courts is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the same level and at the next higher level are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment which has been given in any court at a lower level, or the presiding judge of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on April 9, 1991, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action. However, such selection can not violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgment, order or award. There are time limits of two years imposed on the right to apply for such enforcement. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced by the court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

### **Establishment of a Property Development Enterprise**

According to the "Law of the People's Republic of China on Administration of Urban Real Estate" (中華人民共和國城市房地產管理法) (the "Urban Real Estate Law") promulgated by the Standing Committee of the NPC on July 5, 1994 and effective on January 1, 1995 and as amended in August 2007 and in August 2009 respectively, a property developer is defined as an enterprise which engages in the development and sale of property for the purpose of making profits. Under the "Regulations on Administration of Development of Urban Real Estate" (城市房地產開發經營管理條例) (the "Development Regulations") promulgated and implemented by the State Council in July 1998, an enterprise which is to engage in property development shall satisfy the following requirements: (i) its registered capital shall be RMB1.0 million or more; and (ii) have four or more full-time professional property/construction technicians and two or more full-time accounting officers, each of whom shall hold the relevant qualification certificate. The local government of a province, autonomous region or municipality directly under the central government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a property developer.

In May 2009, the State Council issued a Notice on Adjusting the Ratio 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》 pursuant to which the portion of capital fund is 20% for affordable housing projects and ordinary commodity housing projects and 30% for other property projects.

To establish a property development enterprise, the developer should apply for registration with the administration for industry and commerce. The property developer must also report its establishment to the property development authority in the location of the registration authority, within 30 days of the receipt of its Business License. Where a foreign-invested enterprise is to be established to engage in the development and sale of property, the relevant requirements of the laws and administrative regulations regarding foreign-invested enterprises must also be observed and relevant examination and approvals be handled.

Foreign-invested real estate development enterprises can be established in the form of Sino-foreign equity joint venture, Sino-foreign co-operative joint venture or wholly owned foreign enterprise according to the 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.

In July 2006, the Ministry of Construction, the MOFCOM, the NDRC, the PBOC, the SAIC and the SAFE promulgated the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market 《關於規範房地產市場外資准入和管理的意見》(the “171 Opinion”). Under such circular, when a foreign investor establishes a property development enterprise in China where the total investment amount is US\$10 million or more, such enterprise’s registered capital must not be less than 50% of its total investment amount. Foreign institutions which have no branches or representative offices in the PRC or foreign individuals who work or study in the PRC for less than one year are prohibited from purchasing any real property in the PRC.

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 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》 or Circular 50 which stipulates the following requirements for the approval and supervision of foreign investment in real estate:

- foreign investment in the PRC real estate sector relating to high-grade properties should be strictly controlled;
- before obtaining approval for the setup of real estate entities with foreign investment, (i) both the land use rights certificates and housing ownership right certificates should be obtained or, (ii) contracts for obtaining land use rights or housing ownership rights should be entered into;
- entities which have been set up with foreign investment need to obtain approval before they expand their business operations into the real estate sector, and entities which have been set up for real estate development operation need to obtain new approval in case they expand their real estate business operations;
- acquisitions of real estate entities and foreign investment in the real estate sector by way of round-trip investment should be strictly regulated. Foreign investors should not avoid approval procedures by changing actual controlling persons;
- parties to real estate entities with foreign investment should not in any way guarantee a fixed investment return;
- registration shall be immediately effected according to applicable laws with the MOFCOM regarding the setup of real estate entities with foreign investment approved by local PRC governmental authorities;
- foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not effectuate foreign exchange settlements regarding capital account items to those who fail to file with the MOFCOM or fail to pass the annual reviews; and
- for those real estate entities who are wrongfully approved by local authorities for their setups, (i) the MOFCOM should carry out investigation and order punishment and corrections, and (ii) 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項目名單的通知》 (“Notice 130”), which has been repealed in May 2013. This regulation restricts the ability of foreign-invested real estate companies to raise funds offshore for the purposes of injecting such funds into the companies by way of shareholder loans. Although this notice was repealed in May 2013, the restrictions and requirements remain effective. The notice stipulates, among other things that:

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

On September 27, 2007, the PBOC and the CBRC jointly issued a Circular on Strengthening Commercial Real Estate Loan Administration 《關於加強商業性房地產信貸管理的通知》. This circular reaffirmed some of the restrictions applicable to the sale of residential and commercial units imposed by prior regulations as well as introduced new rules that prohibit, among other things, the provision of working capital financing by commercial banks to property developers (other than property development loans, which may only be used on local property development projects and not on projects in other regions without prior approvals from governmental authorities). In the case of a borrower that purchases his first residential unit with GFA of more than 90 square meters, he is required to make a down payment of not less than 30% of the purchase price, with such percentage increasing to 40% for his subsequent residential unit purchases. In addition, the loan interest rate applicable to such subsequent residential unit purchases cannot be lower than 1.1 times of the benchmark lending rate published by the PBOC during the same period. For commercial units, the down payment should be no less than 50% of the purchase price, with a maximum loan period of 10 years and a minimum loan interest rate of 1.1 times the PBOC lending rate for the same period.

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 or increases its registered capital, 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.

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

On April 6, 2010, the State Council issued the “Opinions on Further Enhancing the Utilization of Foreign Investment” (關於進一步做好利用外資工作的若干意見), which provides that, projects with total investment (including capital increase) of less than US\$300 million within the category of industries in which foreign investment is encouraged or permitted as listed in the Guidance Catalogue may be approved by local governments, except for those required to be approved by relevant departments of the State Council under the “Catalogue of Investment Projects Approved by the Government” (政府核准的投資項目目錄).

On May 4, 2010, the NDRC issued the Circular on Doing a Good Job in Delegating the Power to Verify Foreign-invested Projects 《關於做好外商投資項目下放核准權限工作的通知》, specifying that the power to verify foreign invested projects shall be delegated and project verification procedures shall be simplified. The circular provides that, except for the projects that are required to be verified by relevant departments of the State Council in accordance with the “Catalog of Investment Projects approved by the Government,” the foreign invested projects which are within the encouraged or permitted industry categories under the Guideline Catalog shall be verified by the NDRC at the provincial level, provided that such projects have a total investment (including additional invested capital) of no more than US\$300 million. However, the power to verify projects within the restricted industry category under the Guideline Catalog is not to be delegated for the time being.

On June 10, 2010, the MOFCOM released the Circular on Issues Concerning Delegating the Examination and Approval Authority for the Foreign Investment 《商務部關於下放外商投資審批權限有關問題的通知》. Under the circular, local authorities are granted the power to examine, approve and administrate the establishment and replacement of (i) foreign invested enterprises which are within the encouraged and permitted categories under the Guidance Catalog and have a total investment of no more than US\$300 million, and (ii) foreign invested enterprises which are within the restricted category under the Guidance Catalog and have a total investment of no more than US\$50 million.

On June 24, 2014, MOFCOM and SAFE jointly issued the Notice on Improving the Registration of Foreign Investment in Real Estate (關於改進外商投資房地產備案工作的通知) effective from August 1, 2014 to simplify the procedures of registration of foreign investment in real estate.

On August 19, 2015, MOHURD, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued the Circular on Adjusting the Admittance and Administration of Foreign Capital in the Real Estate Market (關於調整房地產市場外資准入和管理有關政策的通知). This circular amended, the registered capital requirement in the 171 Opinion and stipulates that when a foreign investor establishes a property development enterprise in China in which (i) the total investment amount is more than US\$10 million and less than US\$30 million, such enterprise’s registered capital must not be less than 40% of its total investment amount; (ii) the total investment amount is less than US\$12.5 million, such enterprise’s registered capital must not be less than US\$5 million; (iii) the total investment amount is US\$30 million or more, such enterprise’s registered capital must not be less than 33.3% of its total investment amount; and (iv) the total investment amount is less than US\$36 million, such enterprise’s registered capital must not less than US\$12 million.

On November 6, 2015, MOFCOM and SAFE jointly issued the Notice on Further Improving the Registration of Foreign Investment in Real Estate (關於進一步改進外商投資房地產備案工作的通知) effective from November 6, 2015 to cancel the registration procedures of foreign investment in real estate.

### **Qualifications of a Property Developer**

Under the “Provisions on Administration of Qualifications of Property Developers” (房地產開發企業資質管理規定) (the “Provisions on Administration of Qualifications”) promulgated by the Ministry of Construction in March 2000, a property developer shall apply for registration of its qualifications according to such the Provisions on Administration of Qualifications. An enterprise may not engage in development and sale of property without a qualification classification certificate for property development. The construction authority under the State Council oversees the qualifications of property developers throughout the country, and the property development authority under a local government on or above the county level shall oversee the qualifications of local property developers.

In accordance with the Provisions on Administration of Qualifications, property developers are classified into four classes. Different classes of qualification should be examined and approved by corresponding authorities. The class 1 qualifications shall be subject to preliminary examination by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower qualifications shall be formulated by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority.

Under the Development Regulations, the property development authorities shall examine applications for registration of qualifications of a property developer when it reports its establishment, by considering its

assets, professional personnel and business results. A property developer shall only undertake property development projects in compliance with the approved qualification registration.

After a newly established property developer reports its establishment to the property development authority, the latter shall issue a Provisional Qualification Certificate to the eligible developer within 30 days of its receipt of the above report. The Provisional Qualification Certificate shall be effective in one year as from its issuance, while the property development authority may extend the validity to a period of no longer than two years considering the actual business situation of the enterprise. The property developer shall apply for qualification classification by the property development authority within one month before expiry of the Provisional Qualification Certificate.

A developer of any qualification classification may only engage in the development and sale of property within its approved scope of business and may not engage in business which is limited to another classification. A class 1 property developer is not restricted as to the scale of property project to be developed and may undertake a property development project anywhere in the country. A class 2 property developer or lower may undertake a project with a gross floor area of less than 250,000 square meters and the specific scope of business shall be as confirmed by the construction authority under the government of the relevant province, autonomous region or municipality. Pursuant to the Provisions on Administration of Qualifications, the qualification of a property developer shall be inspected annually. The construction authority under the State Council or its authorized institution is responsible for the annual inspection of a class 1 property developer's qualification. Procedures for annual qualification inspection with developers of class 2 or lower shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

### **Development of a Property Project**

Under the Guidance Catalog, the property development business falls within the category of industries in which foreign investment is permitted, except that the construction and operation of villas fall within the category of industries in which foreign investment is prohibited. According to the Interim Provisions on Approving Foreign Investment Project promulgated by NDRC in October 2004, NDRC shall examine and approve the foreign investment projects with total investment of US\$100 million or more within the category of industries in which foreign investment is encouraged or permitted and those with total investment of US\$50 million or more within the category of industries in which foreign investment is subject to restrictions as classified in the Guidance Catalogue, while the local development and reform authorities shall examine and approve the foreign investment projects with total investment less than US\$100 million within the category of industries in which foreign investment is encouraged or permitted and those with total investment less than US\$50 million within the category of industries in which foreign investment is subject to restrictions as classified in the Guidance Catalogue.

Under the Interim Regulations of the People's Republic of China on Grant and Transfer of the Use Right of State-owned Urban Land 《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》 (“Interim Regulations on Grant and Transfer”) promulgated by the State Council in May 1990, a system of grant and transfer of the right to use state-owned land is adopted. A land user shall pay an land premium to the government as consideration for the grant of the right to use a land site within a certain term, and the land user may transfer, lease, mortgage or otherwise commercially use the land use right within the term of use. Under the Interim Regulations on Grant 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 to provide for the grant of land use right. The land user shall pay the land premium as provided 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 right certificate evidencing the acquisition of land use rights. The Urban Real Estate Law and 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 PRC laws or the stipulations of the State Council.

Under the Rules Regarding the Grant of State-owned Land Use Rights for construction by Way of Tender, Auction and Listing-for-sale 《招標拍賣掛牌出讓國有建設用地使用權規定》 promulgated by the Ministry of Land and Resources on September 28, 2007, state-owned land use rights for the purposes of industrial use, commercial use, tourism, entertainment and commodity residential property development in the PRC may be granted by the government only through public tender, auction and listing-for-sale.

When carrying out the feasibility study for a construction project, a construction company shall make a preliminary application for construction on the relevant site to the land administration authority of the

same level as the project approval authority, in accordance with the “Measures for Administration of Examination and Approval for Construction Sites” (建設用地審查報批管理辦法) promulgated by the Ministry of Land and Resources in March 1999 and the “Measures for Administration of Preliminary Examination of Construction Project Sites” (建設項目用地預審管理辦法) promulgated by the Ministry of Land and Resources in July 2001 and as amended in October 2004 and November, 2008, respectively. After receiving the preliminary application, the land administration authority shall carry out preliminary approval of various matters relating to the construction project in compliance with the overall zoning plans and land supply policy of the government, and shall the issue a preliminary approval report in respect of the project site. The land administration authority under the government of the relevant city or county shall sign a land grant contract with the land user and issue an approval for construction site to the construction company.

According to the Urban Real Estate Law, a land user who obtains land use right under the grant system must develop the land according to the purposes for which the land is acquired and must commence the development within the time frame agreed to under the land grant contract. If the land user fails to commence developing the land within one year of the construction commencement date stipulated in the land grant contract, then the local land administration authority may charge the land user an “idle land fee” of up to 20% of the land premium. If the land user fails to commence development of the relevant land after two years from the deadline set forth in land grant contract, the land user’s land use right may be forfeited. However, the foresaid penalties do not apply if the failure to commence development and construction is due to force majeure or caused by government actions.

On June 1, 2012, the MLR revised and promulgated the Measure for the Disposal of Idle Land (閒置土地處置辦法), which further clarified the scope and definition of idle land, as well as the corresponding punishment measures compared to the old version.

On January 3, 2008, the State Council reiterated the abovementioned policies in the Notice on Enhancing the Economical and Intensive Use of Land 《關於促進節約集約用地的通知》. This notice states, among other things, that (i) policies in relation to the forfeiture of land use rights without compensation for land which has remained idle for more than two years shall be strictly implemented; (ii) if any land remains idle for one year, an idle land fee of 20% of the relevant land premium shall be levied; (iii) the prohibition of land supply for villa projects shall continue; (iv) the Ministry of Land and Resources and other authorities are required to research and commence the drafting of implementation rules concerning the levy on land appreciation value 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 square meters 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.

On May 22, 2014, the Ministry of Land and Resources published the Regulation on Economization of Land Use (《節約集約利用土地規定》), which takes effect on September 1, 2014. This regulations states, among other things, that (i) the state will control the total scale of construction land via overall plans for land use; (ii) the Ministry of Land and Resources, together with other relevant authorities, will issue land use controlling standards for engineering construction projects, industrial construction projects and real estate development projects (including land scale and plot ratio), which shall be strictly observed; (iii) the scope of allocated lands will be further limited. Except for land used for military purposes, indemnificatory housing, and land used for special purposes concerning national security and public order which may be allocated without compensation, all the land used for business purposes, land used for offices by the government organizations, infrastructure industry, such as energy, communications and water conservancy, and urban infrastructure shall be granted with compensation; and (iv) the owner of land use rights and the price for a plot of granted land shall be determined through tender, auction or putting up for bidding. The price for a plot of land granted with compensation shall not be less than the minimum price set by the state. It is prohibited to exempt or reduce the payment for a plot of land granted with compensation in such disguised forms as exchanging land for projects, refunding after collection or granting subsidiaries or rewards.

Under the “Measures for Control and Administration of Grant and Transfer of Right to Use Urban State-owned Land” (城市國有土地使用權出讓轉讓規劃管理辦法) promulgated by the Ministry of



Construction in December 1992 and the Notice of the Ministry of Construction on strengthening the Planning Administration of Assignment and Transfer of the Right to use State-owned Land《關於加強國有土地使用權出讓規劃管理工作的通知》promulgated and implemented by the Ministry of Construction on December 26, 2002, the grantee to an land grant contract (i.e., a property developer) shall legally apply for a Permit for Construction Site Planning from the municipal planning authority with the land grant contract.

After obtaining a construction site planning permit, a property developer shall organize the necessary planning and design work in respect of the planning and design requirements. For the planning and design proposal in respect of a property development project, the relevant report and required by the “PRC City and Countryside Planning Law” (中華人民共和國城鄉規劃法) promulgated by the Standing Committee of the NPC in October 2007 and local statutes on municipal planning must be followed and a construction works planning permit must be obtained from the municipal planning authority.

After a property developer has carried out the above work, the site is ready for the commencement of construction works, the progress of demolition and relocation of existing buildings complies with construction needs and funds for the construction have been made available, the developer shall apply for a Permit for Commencement of Works from the construction authority under the local government above the county level according to the “Measures for Administration of Granting Permission for Commencement of Construction Works” (建築工程施工許可管理辦法) promulgated by the Ministry of Construction in October 1999 and as amended in July 2001.

A property project developed by a property developer shall comply with the relevant laws and other statutes, requirements on construction quality, safety standards and technical guidance on survey, design and construction work, as well as provisions of the relevant contract. After completion of works for a project, the property developer shall organize an acceptance examination according to the “Regulations on the Administration of Quality of Construction Works” (建設工程質量管理條例) promulgated and implemented by State Council on January 30, 2000, and the Provisions on 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規定》promulgated by the Ministry of Housing and Urban-Rural Development in December 2013, and shall also report details of the acceptance examination according to the Administrative Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》promulgated by the Ministry of Construction in April 2000 and as amended in October 2009. A property development project may only be delivered after passing the necessary acceptance examination, and may not be delivered before the necessary acceptance examination is conducted or without passing such an acceptance examination. For a housing estate or other building complex project, an acceptance examination shall be conducted upon completion of the whole project and where such a project is developed in phases, an acceptance examination may be carried out for each completed phase.

### **Land for Property Development**

The provisions of the Regulations on the Development, Operation and Management of Property provide that, except for land use rights which may be obtained through allocation pursuant to PRC laws or the stipulations of the State Council, land for property development shall initially be obtained by government grant. Under the Rules regarding the Grant of State-Owned Land Use way of Tender, Auction and Listing-for-Sale《招標招賣掛牌出讓國有建設用地使用權規定》promulgated by the Ministry of Land and Resources on September 28, 2007 and effective on November 1, 2007, land for industrial use, commercial use, tourism, entertainment and commodity housing development shall be assigned by competitive bidding, public auction or listing-for-sale and, in the event that a land parcel for uses other than industry, commerce, tourism, entertainment and commodity housing development has two or more prospective purchasers after the promulgation of the relevant land supply schedule, the grant of the land parcel shall be performed by competitive bidding, public auction or listing-for-sale. Under the foresaid regulations, the assignor shall prepare the public trading and competitive bidding documents and shall make an announcement 20 days prior to the day of public auction to announce the basic particulars of the land parcel and the time and venue of the public auction. The assignor shall conduct a qualification verification of the bidding applicants and auction applicants, accept an open public trading to determine the winning tender; or hold an auction to ascertain a winning bidder. The assignor and the winning tender or winning bidder shall then enter into a confirmation, and the assignor and the winning tender or winning bidder shall then enter into a land grant contract. The relevant land use rights certificates will not be issued prior to the full payment of the land premium.

On September 24, 2003, the Ministry of Land and Resources issued 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》 designed to strictly control land supply for high-end luxury property development. On May 30, 2006, the Ministry of Land and Resources published an “Urgent Notice on Tightening Land Administration” (關於當前進一步從嚴土地管理的緊急通知). The Notice requires that all land used for property development must be assigned by competitive tender, auction or listing-for-sale, and that the supply of land for new villa projects shall be suspended.

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 《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 minimum land premium shall not be less than 70% of the benchmark price of the locality of the parcel of land granted, and the bidding deposit shall not be less than 20% of the minimum land premium. The Circular makes 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 is closed, the down payment of 50% of the land premium shall be paid within one month as of the date of land grant contract, and the remaining shall be paid in accordance with provisions of the land grant contract within one year.

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

In December 2010, the Ministry of Land and Resources promulgated the Notice on Strict Implementation of Policies Regarding Regulation and Control of Real Property Land and Promotion of the Healthy Development of Land Markets 《關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知》, which provides, among other things, that: (i) cities and counties that have less than 70% of their land supply designated for affordable housing, housing for redevelopment of shanty towns or small/medium residential units must not provide land for large-sized and high-end housing before the end of this year; (ii) land and resource authorities in local cities and counties will report to Ministry of Land and Resources and provincial land and resource authorities, respectively regarding land with a premium rate of more than 50%; (iii) land designated for affordable housing which is used for property development against relevant policies or involved illegal income will be confiscated and the relevant land use rights will be withdrawn. Moreover, such notice stipulates that changing the plot ratio without approval is strictly prohibited.

On January 21, 2011, the “Regulations on the Expropriation of Buildings on State-owned Land and Compensation” (《國有土地上房屋徵收與補償條例》) was promulgated by the State Council.

On January 26, 2011, the State Council circulated Notice on Further Regulating the Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知), which provides stricter

management of housing land supply, among other things, that participants or individual bidding on any land unit shall show proof of funding sources.

According to the Notice on Implementation Measures on Urban Housing Land Management and Regulation in 2011 (關於切實做好2011年城市住房用地管理和調控重點工作的通知) promulgated by the Ministry of Land and Resources in February 2011, construction land for 10 million units of affordable housing units shall be implemented in 2011. It also requires that the target total supply of urban housing land shall not be lower than the annual average supply for the preceding two years.

According to the Notice on Implementation Measures on Urban Housing Land Management and Regulation in 2012 (關於切實做好2012年房地產用地管理和調控重點工作的通知) promulgated by the Ministry of Land and Resources in February 2012, the target total supply of urban housing land shall not be lower than the annual average supply for the preceding five years.

According to the Circular on the Distribution of the Catalog for Restricted Land Use Projects (2012 Edition) and the Catalog for Prohibited Land Use Projects (2012 Edition) (關於印發〈限制用地項目目錄〉(2012年本)和〈禁止用地項目目錄〉(2012年本)的通知) promulgated by the Ministry of Land and Resources in May 2012, the transferred area of the residential housing projects should not exceed (i) seven hectares for small cities and towns, (ii) 14 hectares for medium-sized cities, or (iii) and 20 hectares for large cities and plot ratio which is not more than 1.0.

On September 6, 2012, the Ministry of Land and Resources promulgated the Notice on Strictly Implementation Land Use Standards and Vigorously Promotion Economical and Intensive Land Use (《關於嚴格執行土地使用標準大力促進節約集約用地的通知》), which stipulates, among other things, that: (a) land use standard shall be strictly implemented and continuously improved. For industrial and commercial land transferred through lawful public tender, auction and listing-for-sale, the administration of land and resources of cities and counties shall establish the requirements related to land use standards for the schemes and announcement of land assignment, and include such requirements in assignment contracts and strictly enforce the requirements. Construction lands that are listed in the Catalog for Prohibited Land Use Projects, or that fail to conform to the prescribed conditions in the Catalog for Restricted Land Use Projects (《限制用地項目目錄》), or for which the intensity of investment, floor area ratio, construction coefficient, ratio of green land, or proportion of administrative offices and living facilities land fail to conform to relevant requirements for industrial projects or total area or each functional division area surpasses the required limits or the land area and floor area ratio fails to conform to the conditions of the residential land supply shall not pass the land supply and approval procedures; (b) the format and substantial content of land use standard shall be strictly examined; (c) the implementation of land use standard shall be further supervised and evaluated; and (d) the land use standard training program shall be given to the officials in land and resources authorities, and such the land use standards shall be widely publicized for the purpose of effectuation.

On February 6, 2013, the General Office of the State Council issued the Notice on Continuing to improve the Regulation and Control of Real Estate Market (《國務院辦公廳關於繼續做好房地產市場調控工作的通知》) which requires, among other restrictive measures, expanding ordinary commodity housing units and increasing the supply of land. The overall housing land supply in 2013 is required not be lower than the average actual land supply in the past five years.

On September 12, 2014, the Ministry of Land and Resources issued the Guidelines on Improving Economical and Intensive Use of Land (關於推進土地節約集約利用的指導意見), which reinforce the implementation of the rules regarding idle land and specifies the controlling requirements of land use standards in the relevant legal documents including land use approvals and land grant contracts.

### **Sale of Commodity Properties**

Under the “Measures for Administration of Sale of Commodity Properties” (商品房銷售管理辦法) promulgated by the Ministry of Construction in April 2001, sale of commodity properties can include both post-completion sales and pre-sales.

Any pre-sale of commodity properties shall be conducted in accordance with the “Measures for Administration of Pre-sale of Commodity Properties” (城市商品房預售管理辦法) (the “Pre-sale Measures”) promulgated by the Ministry of Construction in November 1994 and as amended in August 2001 and July 2004, respectively, and the Development Regulations. The Pre-sale Measures provide that

pre-sale of commodity properties is subject to certain procedures. According to the Development Regulations and the Pre-sale Measures, a permit shall be obtained before a commodity property may be put up for pre-sale. A developer intending to sell a commodity property before its completion shall make the necessary pre-sale registration with the property development authority of the relevant city or county to obtain a pre-sale permit of commodity properties.

Under the Circular of the General Office of the State Council on Forwarding the Opinion of Such Departments as the Ministry of Construction on Good Handling 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》 promulgated by General Office of the State Council in May 2005, the purchaser of a pre-sold commodity property is prohibited from transferring such pre-sold property before the completion of its construction. Property developers are required to register pre-sales and sales of properties electronically with the local authorities on a real name and real time basis. In July 2006, the Ministry of Construction, NDRC and the SAIC reiterated such requirement in Notice on Reorganizing and Regulating Order in the Real Estate Transactions, 《關於進一步整規房地產交易秩序的通知》.

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

The Provisions on Sales of Commodity Properties at Clearly Marked Price (商品房銷售明碼標價規定) was promulgated by the NDRC on March 16, 2011 and became effective on May 1, 2011. According to the provisions, any real estate developer or real estate agency (“real estate operators”) is required to mark the selling price explicitly and clearly for both newly-build and second-hand commodity properties. The provisions require real estate operators to clearly indicate to the public the prices and relevant fees of commodity properties, as well as other factors affecting the prices of commodity properties. With respect to the real estate development projects that have received property pre-sale license or have completed the filing procedures for the sales of constructed properties, real estate operators shall announce all the commodity properties available for sales at once within the specified time limit. Furthermore, with regard to a property that has been sold, real estate operators are obliged to disclose this information and to disclose the actual transaction price. Real estate operators cannot sell commodity properties beyond the stated price or charge any other fees not explicitly marked. Moreover, real estate operators may neither mislead property purchasers with false or irregular price marking, nor engage in price fraud by using false or misleading price marking methods.

### **Real Estate Registration**

On November 24, 2014, the State Council promulgated the Interim Regulations on Real Estate Registration (不動產登記暫行條例) effective from March 1, 2015, which provides for the following, among others:

- the competent department of land and resources under the State Council shall be responsible for guiding and supervising the real estate registration of the State. The local government at or above the county level shall designate a department as the real estate registration authority within its administrative region which shall be subject to the guide and supervision by the competent real estate registration authority at the higher level.
- the real estate authority shall establish a uniform real estate registration book to record the items including, without limitation, the nature condition, ownership conditions of the real estate, and restriction of rights.
- the competent department of land and resources under the State Council shall, in coordination with other related departments, establish a uniform basic management platform for real estate registration information. The information registered by the real estate registration authorities at all levels shall be incorporated into the uniform basic platform to ensure the real-time sharing of registration information at the national, provincial, municipal and county level.

- Any right holder or interested party may apply for inquiring about or copying the real estate registration materials and the registration authority shall not refuse to provide such information. Units and individuals inquiring about the real estate registration information shall not use such registration information for any other purpose and no such information may be disclosed to the public or others without the consent of the right holder.

### **Transfer of Real Estate**

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) promulgated by the Ministry of Construction in August 1995, as amended in August 2001, a property owner may sell, bequeath or otherwise legally transfer the property to another person or legal entity. When a property is transferred, the ownership of the property and the land use rights attached to property are transferred. The parties to a transfer shall enter into a real estate transfer contract in writing and register the transfer with the real estate administration authority having jurisdiction over the location of the property within 90 days of the execution of the transfer contract.

Where the land use rights were originally obtained by government grant, the property may only be transferred on the condition that: (i) the land premium has been paid in full for the grant of the land use rights as provided by the land grant contract and a land use right certificate has been obtained; (ii) development has been carried out according to the land grant contract; and in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed, or in case of a whole land lot development project, construction 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 leveled and made ready for industrial or other construction purposes.

If the land use rights were originally obtained by government grant, 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 grant 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 land grant 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 grant contract or a new land grant contract shall be signed in order to, inter alia, adjust the land premium accordingly.

If the land use rights were originally obtained by allocation, transfer of the property shall be subject to the approval of the government vested with the necessary approval authority as required by the State Council. After such government 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.

### **Leases of Properties**

On December 1, 2010, MOHURD issued the Administrative Measures for Commodity Housing Tenancy (商品房屋租賃管理辦法), according to which, the parties to a housing tenancy are required to register such housing tenancy with the competent construction (real estate) departments of the municipalities directly under the central government, cities and counties where the housing is located within 30 days after the housing tenancy contract is signed. The competent construction (real estate) departments shall urge those who violate the above regulation to make corrections within a specified time limit, and shall impose a fine below RMB1,000 on individuals who fail to make corrections within the specified time limit, and a fine between RMB1,000 and RMB10,000 on units which fail to make corrections within the specified time limit. The above measures came into effect as of February 1, 2011.

### **Mortgages of Real Estate**

Under the “Urban Real Estate Law” promulgated in July, 1994, as amended in August 2007, the Guarantee Law of the People’s Republic of China (中華人民共和國擔保法) promulgated in June 1995 and implemented in October 1995, the “Measures for Administration of Mortgages of Urban Real Estate” (城市房地產抵押管理辦法) promulgated in May 1997, as amended in August 2001, when a mortgage is created on the ownership of a building legally obtained, a mortgage shall be simultaneously created on the land use right of the land on which the property is situated. The mortgager and the mortgagee shall sign a mortgage contract. After a real estate mortgage contract has been signed, the parties to the

mortgage shall register the mortgage with the real estate administration authority at the location where the property is situated. A real estate mortgage contract shall become effective on the date of registration of the mortgage. If a mortgage is created on the property in respect of which a property ownership certificate has been obtained legally, the registration authority shall make an entry under the “third party rights” item on the original property ownership certificate and then issue a certificate of third-party rights on the property to the mortgagee. If a mortgage is created on the commodity property put up for pre-sale or on works in progress, the registration authority shall record the details on the mortgage contract. If construction of a property is completed during the term of a mortgage, the parties involved shall re-register the mortgage of the property after issuance of the certificates evidencing the rights and ownership to the property.

### **Real Estate 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》 in June 2003 to specify the requirements for banks to provide loans for the purposes of residential development.

The down-payment requirement was subsequently increased to 30% of the property price for residential units with a GFA of 90 square meters or more, effective on June 1, 2006. See “— Measures on Stabilizing Housing Prices” below.

The State Council issued the Circular on Facilitating the Continuously Healthy Development of Property Market 《關於促進房地產市場持續健康發展的通知》 issued by the State Council in August 2003, which contains a series of measures to control the property market. They include, but are not limited to, strengthening the construction and management of economical houses, increasing the supply of ordinary commodity properties and controlling the construction of high-end commodity properties. The PRC government also adopted a series of measures in respect of property development loans, which include placing greater effort on provision of loans, improving the guarantee mechanism of individual home loans and strengthening the monitor over property loans. It is expected that the circular should have a long-term positive effect on the development of the PRC property market by facilitating the healthy growth of the PRC property market.

Pursuant to the “Guidance on Risk Management of Property Loans Granted by Commercial Banks” (商業銀行房地產貸款風險管理指引) issued by the CBRC in September 2004, Any property developer applying for property development loans must have at least 35% of capital required for the development and a commercial bank should maintain a strict loan system for considering applications for property development loans.

Under the Notice of the PBOC on Adjusting the Housing Credit Policies of Commercial Banks and Deposit Interest Rate of the Excess Part of the Reserve 《中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知》 issued by the PBOC on March 16, 2005 and effective from March 17, 2005, the minimum amount of down payment for an individual residence shall be increased from 20% to 30% of the purchase price for properties in cities where the property market is considered to be overheating.

On May 24, 2006, the Ministry of Construction, NDRC, the Ministry of Supervision, the Ministry of Finance, the Ministry of Land and Resources, the PBOC, the State Bureau of Statistics, the State Administration of Taxation and the CBRC jointly issued “Opinions on Adjusting Housing Supply Structure and Stabilization of Housing Prices” (關於調整住房供應結構穩定住房價格的意見). These opinions stipulate that a commercial bank shall not lend funds to property developers with an internal capital ratio of less than 35%, or grant revolving credit facilities to property developers holding a large amount of idle land and vacant commodity properties, or take commodity properties which have been vacant for more than three years as security for mortgage loans. The opinions also require that, from June 1, 2006, the minimum amount of down payment shall not be less than 30% of the purchase price of the underlying individual commodity houses with a GFA of 90 square meters or more.

On September 27, 2007, the PBOC and the CBRC issued the Circular on Strengthening the Credit Administration for Commercial Real Estate 《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.

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.

According to the notice 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有關問題的通知》 promulgated by the PBOC on October 22, 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% for units with a unit floor area of less than 90 square meters per unit.

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》, adopted a series of measures to strengthen and improve the regulation of the property market, stabilize market expectation and facilitate the stable and healthy development of the property market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of property, curb speculation of properties, and strengthen risk prevention and market supervision. Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), which has already purchased a residence through mortgage financing and has applied to purchase a second or more residences through mortgage financing, to pay a minimum down payment of 40% of the 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 Guofa (2010) No. 10 《國務院關於堅決遏制部分城市房價過快上漲的通知》 which stipulated that down payment for the first property that is larger than 90 square meters shall not be less than 30% of the purchase price; down payment for the second property bought with mortgage loans shall be not less than 50% of the purchase price and the loan interest rate shall be not less than 1.1 times the benchmark lending rate published by the PBOC. In addition, the down payment and interest rate shall significantly increase for the third or further properties bought with mortgage loans.

Three authorities, including MOHURD, the PBOC and the CBRC, jointly released the Circular on Regulating the Criteria for Identifying the Second Residential Property in Connection with Commercial Mortgage Loans 《關於規範商業性個人住房貸款中第二套住房認定標準的通知》 on May 26, 2010, so as to regulate cognition of the second house of applicants for commercial housing loans (hereinafter referred to as the loan applicants). Under the circular, number of houses owned by a family in the commercial housing loans for individuals shall be calculated according to number of sets of houses which are actually owned by members (including the loan applicant and his/her spouse and under-age children, hereinafter the same) of the family who plans to purchase a house. The Circular also stipulated that house purchasers shall check the house registration records of the family via the house registration system, and shall provide the results in written. The loan applicant shall provide the credit guarantee in written to prove the actual number of houses owned by his/her family.

In September 2010, PBOC and the CBRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan Policies 《關於完善差別化住房信貸政策有關問題的通知》, which provides, among other things, that (i) the minimum down payment is raised to 30% for all first home purchases; (ii) commercial banks in China shall suspend mortgage loans to purchasers for their third residential property and beyond or to non-local residents who can not provide documentation certifying payment of local tax or social security for longer than a one-year period; (iii) all property companies with records of being involved in abuse of land, changing the use of land, postponing the construction commencement or completion date, hoarding properties or other non-compliance will be restricted from obtaining bank loans for new projects or extension of credit facilities.

In November 2010, MOHURD, the Ministry of Finance, PBOC and the CBRC jointly promulgated the Notice on Relevant Issues Concerning Policies of Regulation of Individual Housing Reserve Loan 《關於規範住房公積金個人住房貸款政策有關問題的通知》, which provided that, among other things: (i) where a first-time house purchaser (including the borrower, spouse and minor children) uses housing reserve loans to buy an ordinary house for self-use with a unit floor area: (a) equal to or less than 90 square meters, the minimum down payment shall be at least 20%, (b) more than 90 square meters, the

minimum down payment shall be at least 30%; (ii) for a second-time house purchaser that uses housing reserve loans, the minimum down payment shall be at least 50% with the minimum lending interest rate at least 1.1 times the benchmark rate; (iii) the second housing reserve loan will only be available to families whose per capita housing area is below the average in locality and such loan must only be used to purchase an ordinary house for self-use to improve residence conditions; and (iv) housing reserve loans to families for their third residential property and beyond will be suspended.

In January 2011, the State Council issued the Notice concerning Further Strengthening the Macroeconomic Control of Real Property Market 《關於進一步做好房地產市場調控工作有關問題的通知》, which provided that the minimum down payment was to be raised to 60% for second-house purchases with the minimum lending interest rate at least 1.1 times the benchmark rate.

On February 26, 2013, the General Office of the State Council announced the Notice on Continuing to Improve the Regulation and Control of the Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知). The notice provides that for those cities with excessive growth in housing prices, the local counterparts of the PBOC may further increase down payment ratios and interest rates for loans to purchase second properties in accordance with the price control policies and targets of the corresponding local governments. Since August 2014, most of the local government have issued their respective measures to lift the housing purchase restrictions.

To support the demand of buyers of property for residential purposes and to promote the sustainable development of the real estate market, PBOC and CBRC jointly issued a notice in September 2014, which provides where a family that owns a residential property and has paid off its existing mortgage loan applies for a new mortgage loan to buy another residential property to improve living conditions, the bank may apply the first-time housing purchase mortgage loan policy. In cities that have lifted housing purchase restrictions on residents or those that have not imposed such restrictions, when a family that owns two residential properties or more and has paid off all the existing mortgage loans applies for a new mortgage loan to buy another residential property, the bank is required to assess the credit profile of the borrower, taking into consideration the solvency, credit standing of the borrower and other factors, and decide the down payment ratio and loan interest rate. In view of the local urbanization plan, banks may provide mortgage loans to non-local residents that meet the conditions required by the related policies.

In March 2015, the PBOC, CBRC and MOHURD jointly issued a notice to lower the minimum down payment to 40% for the family that owns a residential property and has not paid off its existing mortgage loan applying for a new mortgage loan to purchase another ordinary residential property to improve living conditions and allow the bank at its own discretion to decide the down payment ratio and loan interest rate taking into consideration the solvency and credit standing of the borrower. The notice also provides that (i) where a family applies for a housing reserve loan to buy the first residential property, the minimum down payment will be 20% of the property price; and (ii) where a family that owns a residential property and has paid off its existing mortgage loan applies for a second housing reserve loan to buy another residential property to improve living conditions, the minimum down payment will be 30% of the property price.

In August, 2015, the CBRC, the Ministry of Finance and PBOC jointly issued a notice to lower the minimum down payment to 20% for the family that owns a residential property and has paid off its existing mortgage loan applies for a second housing reserve loan to buy another residential property to improve living conditions. In Beijing, Shanghai, Guangzhou and Shenzhen, the minimum down payment of applying for housing reserve loan to buy a second residential property can be decided by local government in combination with local reality.

## **Property Management**

According to the Guidance Catalogue, property management falls within the category of permitted foreign-invested industries. According to the Guidance Catalogue 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 owned foreign enterprise. Before the SAIC registers a foreign-invested enterprise as a foreign-invested real estate management enterprise, the foreign-invested real estate management enterprise should obtain an approval from the relevant department of commerce and receive a “foreign-invested enterprise approval certificate.”

According to the “Regulation on Real Estate Management” enacted by the State Council on June 8, 2003 and enforced on September 1, 2003, as amended on August 26, 2007 and effective on October 1, 2007, the



state implements a qualification scheme system in monitoring the real estate management enterprises. According to the “Measures for Administration of Qualifications of Real Estate Management Enterprises” (物業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, a newly established real estate management enterprise shall, within 30 days of receiving its business license, apply to the applicable local authority for the grant of qualification certificate. The applicable local authority will assess the qualification of the applicant and issue a “real estate management qualification certificate” based on assessment. The Ministry of Construction amended the “Measures for Administration of Qualifications of Real Estate Management Enterprises” on November 26, 2007 and changed its title to “Measures for Administration of Qualifications of Real Estate Service Enterprises.” The amendment removed the requirement of annual inspection of real estate management enterprises and replaced the references to “real estate management enterprises” with references to “real estate service enterprises.”

According to the “Measures for the Administration on Qualifications of Real Estate Service Enterprises,” real estate service enterprise shall be accredited as class one, class two or class three of qualification. The Department of Construction of the State Council is responsible for the issuance and administration of the qualification certificate for class one real estate service enterprises. The competent construction departments of the relevant provincial and regional government are 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 are 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 governments of the cities divided into districts shall be responsible for the issuance and administration of the qualification certificate of the class three real estate service enterprises.

The real estate service enterprises with class one qualification may undertake various property management projects. The real estate service enterprises with class two qualification may provide property management services to residential properties of less than 300,000 square meters of GFA and non-residential properties of less than 80,000 square meters of GFA. The real estate service enterprises with class three qualification may provide property management services to residential properties with less than 200,000 square meters of GFA and non-residential properties with less than 50,000 square meters of GFA.

According to the “Regulation on Real Estate Management” (物業管理條例), the general meeting of owners in a property can appoint or dismiss the property management service provider with affirmative votes of more than half of the owners who in the aggregate hold more than 50% of the total uncommunal area of the property. Before the formal appointment of a property service enterprise by the general meeting of the owners, a written temporary service contract should be signed by the construction institutions (for example, a developer) and a property service enterprise.

## **Insurance**

There is no mandatory provision in under PRC laws and regulations requiring a property developer to obtain insurance policies for its property developments. Construction companies are required to pay for the insurance premium at their own costs and obtain insurance to cover their liabilities, such as third-party’s liability risk, employer’s liability risk, risk of non-performance of contract in the course of construction and risks associated with the construction and installation works during the construction period. The requirement for construction companies to obtain insurance coverage for all the aforementioned risks ceases immediately after the completion and acceptance upon inspection of construction.

## **Hotel Development**

A foreign-invested enterprise engaging the hotel business can set up an enterprise in the form of Sino-foreign equity joint venture, Sino-foreign co-operative joint venture or wholly foreign-owned enterprise according to the Guidance Catalogue 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.

Hotel developments in China are also subject to regulations governing property development generally, including those relating to land use, project planning and construction.

Currently, no dedicated regulator has been designated for the hotel industry in the PRC. The governmental regulation of operation of hotel business is undertaken by different authorities in accordance with the respective business scopes of different hotels.

### ***Supervision on security and fire control***

Pursuant to the “Measures for the Control of Security in the Hotel Industry” (旅館業治安管理辦法) issued by the Ministry of Public Security of the People’s Republic of China and enforced on November 10, 1987 and as amended on January 8, 2011, a hotel can start operation only after obtaining an approval from the local public security bureau and being issued a business license. The hotel operators should make a filing with the local public security bureau and its branches in the county or city, if the hotel operators has any material change such as closing, transferring business or merging into other business, changing place of business and name. Pursuant to the “Provisions on the Administration of Fire Control Safety of State Organs, Organizations, Enterprises and Institutions” (機關、團體、企業、事業單位消防安全管理規定) enacted by the Ministry of Public Security on November 14, 2001 and enforced on May 1, 2002, hotels (or motels) are subject to special regulation in terms of fire control and safety. When a hotel is under construction, renovation or re-construction, a fire control examination procedure is required and when the construction, renovation or re-construction project is completed, a hotel can only open for business after passing a fire control inspection.

### ***Supervision on public health***

According to relevant regulations and rules in relation to public health, hotels are subject to public health regulation. The operating enterprise should gain the sanitation license. The measures for granting and managing sanitation license are formulated by public health authority of province, autonomous region, and municipality directly under the central government. The sanitation license is signed by the relevant public health administration and the public health and epidemic prevention institutions grant the license. The sanitation license should be reviewed once every two years.

### ***Supervision on catering***

According to the relevant regulations and rules in relation to catering services, hotels operating catering services should obtain catering service permits. Catering service permits are granted by food and drug administrative bodies above county level. The purchase, reserve and processing of food, tableware, and service should meet relevant requirements and standards for catering services.

### ***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 facilities for profits should apply to the relevant local competent authorities of culture administration for entertainment commercial operation approvals. The relevant local competent authorities 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 by the competent authorities of entertainment administration under the State Council in its approval. According to the regulations concerning broadcast, movies and television, hotels with three stars or above or with the second rank of the national standards may apply to 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 and the approval from state security administration, the permit of receiving foreign television program from satellite is issued.

### ***Supervision on disposition of sewage and pollutants***

According to Decision on Setting Administrative Licensing on Items Requiring Administrative Approval that Really Need Reserved (國務院對確需保留的行政審批項目設定行政許可的決定) enacted by the State Council on June 29, 2004, effective on July 1, 2004 and as amended on January 29, 2009, hotels that have been using or planning to use the city sewage system for water drainage should apply to the local city drainage administrative department for a city water-draining permit.

### ***Supervision on special equipment security***

Elevators (lifts or escalators), boilers and pressure containers are treated as special equipments under relevant PRC regulations. According to the “Regulations on Security Supervision of Special Equipment”

(特種設備安全監察條例) enacted by the State Council on January 24, 2009 and enforced on May 1, 2009, hotels should register with the special equipment security supervision authority of municipal government or city which has set up districts, and should undergo periodic inspection by the special equipment examination institution.

### ***Supervision on sale of tobacco and alcohol***

According to law and regulations in relation to 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 the MOFCOM on April 16, 2004 and enforced on June 1, 2004, a foreign-invested enterprise that operates wholesale and retail is not allowed to operate in tobacco business. According to the “Measures for the Administration of Alcohol Circulation” (酒類流通管理辦法) enacted by the MOFCOM 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.

## **Major Taxes Applicable to Property Developers**

### ***Income Tax***

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% applies to foreign-invested enterprises and foreign enterprises which have set up production and operation facilities in the PRC as well as PRC enterprises.

Furthermore, the PRC Enterprise Income Tax Law and its implementation rule provide that a withholding tax rate of 10% is generally 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.

### ***Business Tax***

Pursuant to the Interim Regulations of the People’s Republic of China on Business Tax《中華人民共和國營業稅暫行條例》 promulgated by the State Council in 2008, the tax rate of the transfer of immovable properties, their superstructures and attachments is 5%. The business tax rate for our property management and hotel operation businesses is also 5%.

### ***LAT***

According to the requirements of 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) (the “Provisional Regulations”) promulgated on December 13, 1993 and 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” (中華人民共和國土地增值稅暫行條例實施細則) (the “Detailed Implementation Rules”) promulgated and effective on January 27, 1995, any appreciation amount gained from taxpayer’s transfer of property shall be subject to LAT. LAT is levied according to four progressive rates: 30% for the appreciation amount not exceeding 50% of the sum of deductible items; 40% for the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% for the appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% for the appreciation amount exceeding 200% of the sum of deductible items. The related deductible items aforesaid include the following:

- amount paid for obtaining the land use right;
- costs and expenses for land development;
- costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;

- related tax payable for transfer of property;
- other deductible items as specified by the Ministry of Finance.

According to the requirements of the Provisional Regulations, the Detailed Implementation Rules and the Notice Issued by the Ministry of Finance 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》 announced by the Ministry of Finance and the State Administration of Taxation on January 27, 1995, LAT shall be exempted under any one of the following circumstances:

- Taxpayers constructing ordinary standard residences for sale (i.e., the residences built in accordance with the local standard for general use residential properties; deluxe apartments, villas, resorts, for example, are not categorized as ordinary standard residences) in which the appreciation amount does not exceed 20% of the sum of deductible items;
- Property taken over and repossessed according to laws due to the construction requirements of the government;
- Due to redeployment of work or improvement of living standard, individuals transfer originally self-used residential property, of which they have been living there for 5 years or more, and after obtaining tax authorities' approval;
- For property assignments which were signed before January 1, 1994, whenever the properties are transferred, the LAT shall be exempted;
- Either when the property assignments were signed before January 1, 1994 or when the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, LAT shall be exempted if the properties are transferred within five years after January 1, 1994 for the first time. The date of signing the assignment shall be the date of signing the Sale and Purchase Agreement. Particular property projects which are approved by the government for the development of the whole piece of land and long-term development, of which the properties are transferred for the first time after the five-year tax-free period, after auditing being conducted by the local financial and tax authorities, and approved by Ministry of Finance and State Administration of Taxation, the tax-free period would then be appropriately prolonged.

After the enactment of the Provisional Regulations and the Detailed Implementation Rules, due to the longer period for the property development and transfer, many local tax authorities in the course of implementing the regulations and rules did not force the property developers to declare and pay the LAT. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, State Administration of Taxation, Ministry of Construction and State Land Administration Bureau had separately and jointly issued several notices to restate the requirement that after the assignment contracts are signed, the taxpayers should declare the tax to the local tax authorities with jurisdiction over the underlying property, and pay LAT in accordance with the amount calculated by the tax authority and the time as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority shall not process the relevant title change and shall not issue the property ownership certificate.

The State Administration of Taxation also issued the 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 details, to build up sound taxpaying declaration system for LAT, to modify the methods of pre-levying for the pre-sale of property. Such notice also pointed out that either for the property assignment contracts which were signed before January 1, 1994 or where the project proposal has been approved and capital was injected for development, the privilege policy for LAT exemption for the properties that are transferred within 5 years after January 1, 1994 for the first time is expired, and such tax shall be levied again.

On August 2, 2004, the State Administration of Taxation issued the Notice of the State Administration of Taxation in Respect of Enhancing the Administration of Land Appreciation Tax 《關於加強土地增值稅管理工作的通知》 in order to further clarify the taxpayers' duties in relation to filing of periodic tax returns.

On August 5, 2004, the State Administration of Taxation issued the Notice of the State Administration of Taxation in Respect of Further Enhancing the Administration on Collection of Urban Land Use Tax and Land Appreciation Tax 《關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知》 to further enhance the administrative efforts relating to the collection of LAT. It is stipulated in this notice that the waiver of LAT on any land grant contracts executed prior to January 1, 1994 has expired, and that appreciation in land value shall be subject to LAT irrespective of the time of assignment.

On March 2, 2006, the State Administration of Taxation and the Ministry of Finance issued the Circular of the Ministry of Finance and the State Administration of Taxation on Land Appreciation Tax 《關於土地增值稅若干問題的通知》. The Circular stipulated the following:

- Taxpayers constructing both ordinary residential properties and other commodity houses should calculate the LAT separately, and declare the tax to the local tax authorities where the properties are located.
- Local authorities shall determine, and adjust as appropriate, the provisional LAT rates considering the relevant real property market, the type of building constructed and any other applicable factors.
- A taxpayer who fails to prepay the LAT within the stipulated time frame may be liable to a penalty under the “Administrative Law of the People’s Republic of China on the Levying and Collection of Taxes.”
- In relation to completed property projects, if 85% or more of the saleable GFA has been assigned or transferred, then the local tax authority may require the taxpayer to pay tax on the income from the assigned or transferred property.
- For taxpayers whose shareholders or joint-cooperation partners contributed real properties as capital to such taxpayers, the temporary tax exemption in relation to ordinary residential properties does not apply.

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.

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 (1) the property development project has been completed and fully sold; (2) the property developer transfers the whole incomplete development project; or (3) the land-use rights with respect to the project is transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if any of the following criteria is met: (1) for completed property development projects, the transferred GFA represents more than 85% of total salable GFA, or the proportion represented is less than 85%, but the remaining salable GFA has been leased out or used by the developer; (2) the project has not been sold out for more than three years after obtaining the sale or pre-sale permit; (3) the developer applies for cancellation of the tax registration without having settled the relevant LAT; or (4) other conditions stipulated by the tax authorities.

The Notice also indicated that if a property developer satisfies any of the following circumstances, the tax authorities shall levy and collect LAT as per the levying rate no lower than the pre-payment rate with reference to the bearing rate of LAT of local enterprises with a similar development scale and income level: (i) failure to maintain account book required by law or administrative regulation; (ii) destroying the account book without authorization or refusing to provide taxation information; (iii) the accounts are in a state of mess or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or amount of deductible items; (iv) failure to go through LAT settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

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.

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

On May 25, 2010, the State Administration of Taxation published the Notice on Strengthening the Collection of Land Appreciation Tax 《關於加強土地增值稅徵管工作的通知》 to require all local government to scientifically formulate the tax ratio and strengthen the pre-tax of land value increment tax. According to the Circular, all local government shall made adjustments to the current pre-tax ratio. In addition to safeguarding housing, the pre-tax ratio of provinces in the eastern region shall not be lower than 2%, while the provinces in middle and northeastern region shall not be lower than 1.5% and the provinces in western region shall not be lower than 1%; and the local government shall determine the pre-tax ratio applicable to different types of real estate.

### ***Deed Tax***

Pursuant to the Interim Regulations of the People’s Republic of China on Deed Tax 《中華人民共和國契稅暫行條例》 promulgated by the State Council in July 1997, the transferee, whether an individual or otherwise, of the title to a land site or building in the PRC shall be responsible for the payment of deed tax. The rate of deed tax is 3%–5% of the purchase price. The governments of provinces, autonomous regions and municipalities may, within the foresaid range, determine and report their effective tax rates to the Ministry of Finance and the State Administration of Taxation for the record. Pursuant to the “Implementation Provisions on Deed Tax in Guangdong Province” promulgated by the People’s Government of Guangdong in May 1998, the rate of deed tax in Guangdong is 3%.

### ***Urban Land Use Tax***

Pursuant to the Interim Regulations of the People’s Republic of China on Land Use Tax in respect of Urban Land 《中華人民共和國城鎮土地使用稅暫行條例》 promulgated by the State Council in September 1988 as amended in December 2006 and December 7, 2013, the land use tax in respect of urban land is levied according to the area of relevant land. The annual tax on every square meter of urban land shall be between RMB0.6 and RMB30.0. Any foreign investment enterprise using urban land is required to pay the tax on urban land use accordingly from January 1, 2007. According to the Notice on Land Use Tax Exemption of Foreign-Invested Enterprises and Institutions of Foreign Enterprises in China promulgated by the Ministry of Finance on November 2, 1988 and the “Approval on Land Use Tax Exemption of Foreign-Invested Enterprises” issued by State Administration of Taxation on March 27, 1997, land use fees should be collected instead of land use tax in a foreign-invested enterprise. However, the Interim Regulations of the People’s Republic of China on Land Use Tax in respect of Urban Land were revised by the State Council on December 31, 2006. As of January 1, 2007, land use tax shall be collected from foreign-invested enterprises. The annual tax on every square meter of urban land shall be between RMB0.6 and RMB30.0.

### ***Property Tax***

Under the Interim Regulations of the People’s Republic of China on Property Tax 《中華人民共和國房產稅暫行條例》 promulgated by the State Council in September 1986, property tax shall be 1.2% if it is calculated on the basis of the residual value of a building, and 12% if it is calculated on the basis of the rental.

The State Council recently approved, on a trial basis, the launch of a property tax scheme in selected cities. On January 27, 2011, the governments of Shanghai and Chongqing issued their respective measures for implementing the pilot property tax schemes, which became effective on January 28, 2011. Under the measures issued by the Shanghai government, property tax will be imposed on any purchase of a second (or further) residential property by local residents or any purchase of a residential property by non-local residents on or after January 28, 2011, at rates ranging from 0.4% to 0.6% based on 70% of the purchase price of the property. Under the measures issued by the Chongqing government, property tax will be imposed on (i) stand-alone residential properties (such as villas) owned by individuals, (ii) high-end residential properties purchased by individuals on or after January 28, 2011, the purchase prices per square meter of which are two or more times of the average price of new residential properties developed within the nine major districts of Chongqing in the last two years and (iii) the second or further ordinary residential properties purchased on or after January 28, 2011 by non-resident individuals who are not employed in and do not own an enterprise in Chongqing, at rates ranging from 0.5% to 1.2% of the purchase price of the property. These two governments may issue additional measures to tighten the levy of property tax. It is expected that more local governments will follow Shanghai and Chongqing to impose property tax on commodity properties.

### ***Stamp Duty***

Under the Interim regulations of the People's Republic of China on Stamp Duty 《中華人民共和國印花稅暫行條例》 promulgated by the State Council in August 1988, for building property transfer instruments, including those in respect of property ownership transfer, the duty rate shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including property title certificates and land use rights certificates, stamp duty shall be levied on an item basis of RMB5.0 per item.

### ***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》 promulgated by the State Council in 1985, a taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

In October 2010, the State Council issued the Notice on Unification of the Application of Municipal Maintenance Tax and Education Surcharge by Domestic and Foreign Enterprises and Individuals 《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》, pursuant to which, from December 1, 2010, municipal maintenance tax is applicable to both foreign-invested enterprises, foreign enterprises and foreign individuals, as well as domestic enterprises and individuals.

Pursuant to the Notice on Relevant Issues of Imposition of Municipal Maintenance and Education Surcharge on Foreign-invested Enterprises 《關於對外資企業徵收城市維護建設稅和教育費附加有關問題的通知》 promulgated by the Ministry of Finance and the State Administration of Taxation in November 2010, foreign-invested enterprises must pay municipal maintenance tax on any value-added tax, consumption tax and business tax incurred on or after December 1, 2010. However, foreign-invested enterprises are exempted from municipal maintenance tax on any value-added tax, consumption tax and business tax incurred before December 1, 2010.

### ***Education Surcharge***

Under the Interim Provisions on Imposition of Education Surcharge 《徵收教育費附加的暫行規定》 promulgated by the State Council on April 28, 1986 and as amended on June 7, 1990 and August 20, 2005, a taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas 《國務院關於籌措農村學校辦學經費的通知》. 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 Reply on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-Invested Freightage Enterprises issued by the State Administration of Taxation on February 25, 1994 and on September 14,

2005, respectively, 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.

Pursuant to the aforesaid Unification of Application of Municipal Maintenance Tax and Education Surcharge by Domestic and Foreign Enterprises and Individuals 《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》, from December 1, 2010 an education surcharge is applicable to both foreign-invested enterprises, foreign enterprises and foreign individuals as well as domestic enterprises and individuals.

Pursuant to the aforesaid Notice on Relevant Issues of Imposition of Municipal Maintenance and Education Surcharge on Foreign-invested Enterprises 《關於對外資企業徵收城市維護建設稅和教育費附加有關問題的通知》, foreign-invested enterprises must pay an education surcharge on any value-added tax, consumption tax and business tax incurred on or after December 1, 2010. However, foreign-invested enterprises are exempted from paying an education surcharge on any value-added tax, consumption tax and business tax incurred before December 1, 2010.

### **Measures on Stabilizing Housing Prices**

The General Office of the State Council promulgated the Circular on Stabilizing Housing Prices 《關於切實穩定住房價格的通知》 in March 2005 requiring measures to be taken to keep housing prices from increasing too fast and to promote the healthy development of the property market. The Opinions on Work of Stabilizing Housing Price, 《關於做好穩定住房作價工作的意見》 jointly issued by the Ministry of Construction, NDRC, the Ministry of Finance, the Ministry of Land and resources, the PBOC, the State Administration of Taxation and the CBRC in April 2005 provides that:

- Where housing prices grow too fast at a time when the supply of medium-or low-priced ordinary commodity houses and affordable housing is insufficient, construction of new names should mainly focus on projects of medium-or low-priced ordinary commodity houses and affordable housing. The construction of low-density, high-quality houses shall be strictly controlled. With respect to construction projects of medium-or low-priced ordinary commodity houses, before land supplying, the municipal planning authority shall, according to controlling detailed planning, set forth such conditions for planning and design as height, plot ratio and green space, while the property authority, together with other relevant authorities, shall set forth such controlling requirements as sale price, type and area. Such conditions and requirements will be established as preconditions of land grant to ensure adequate supply of medium-or low-priced houses and houses with medium or small area. Local governments are asked to strengthen the supervision of planning permit for property development projects. Housing projects that have not been commenced within two years must be examined again, and those not in compliance with the planning permits shall have their permits revoked.
- Where the price of land for residential use and residential house grows too fast, 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 with medium or low price and economical houses should be especially increased. Land supply for villa construction shall continue to be suspended, and land supply for high-end housing property construction shall be strictly restricted.
- Idle land fee shall be imposed on land that has not been developed for one year from the contractual construction commencement date. Land use right of land that has not been developed for two years shall be forfeited without compensation.
- Commencing from June 1, 2005, business tax upon the transfer of a residential house by an individual within two years from date of purchase shall be levied on the basis of the full amount of the income therefrom. For an individual having transferred an ordinary residential house for two years or more from date of purchase, the business tax will be exempted. For an individual having transferred a residential property other than ordinary residential house for two years or more from date of purchase, the business tax will be levied on the basis of the difference between the income from selling the house and the purchase price.



- Low-to medium-cost ordinary residential houses with medium or small area may enjoy such preferential policies as planning permit, land supply, credit and taxation. Houses enjoying these preferential policies must satisfy the following conditions in principle: the plot ratio of the residential development is above 1.0, the floor area of a single unit is less than 120 square meters, and the actual transfer price is lower than 1.2 times of the average transfer price of houses located on the land of the same level. The local government of a province, autonomous region or municipality may, based on actual circumstances, set up the specific standard for ordinary residential houses enjoying the preferential policies. Under the Circular on Setting up the Standard for Ordinary Residential House in Guangdong Province issued by Guangdong Provincial Construction Bureau in June 2005, ordinary houses in Guangdong Province enjoying preferential policies must also satisfy the following conditions: the plot ratio of the residential district is above 1.0, the gross floor area of one single unit is less than 120 square meters or the internal gross floor area of a single unit is less than 144 square meters, and the actual transfer price is lower than 1.44 times of the average transfer price of houses located on the land of the same level.
- The transfer of uncompleted commodity properties by any pre-sale purchaser shall be prohibited. A system shall be adopted to require purchasers to buy properties in their real names. Any commodity property pre-sale contract shall be filed through the Internet immediately after its execution.

On May 24, 2006, the Ministry of Construction, NDRC, the Ministry of Supervision, the Ministry of Finance, the Ministry of Land and Resources, the PBOC, the State Bureau of Statistics, the State Administration of Taxation and the CBRC jointly issued the “Opinions on Adjusting Housing Supply Structure and Stabilization of Housing Prices” (關於調整住房供應結構穩定住房價格的意見). Such opinions reiterated the existing measures and introduced new measures intended to further curtail the rapid increase in property prices in large cities and to promote healthy development of the PRC property market. These measures, among others, include the following:

- 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;
- requiring that at least 70% of residential projects approved or constructed on or after June 1, 2006 must consist of units with a GFA less than 90 square meters per unit and that projects which have received project development approvals prior to that date but have not obtained construction permits must adjust their planning in order to be in conformity with this new requirement, with the exception that municipalities under direct administration of the PRC central government and provincial capitals may deviate from such ratio under special circumstances upon approval from the Ministry of Construction;
- increasing the minimum amount of down payment from 20% to 30% of the purchase price of the underlying residential property if the underlying property has a GFA of 90 square meters or more, as effective from June 1, 2006;
- prohibiting commercial banks from lending funds to property developers with an internal capital ratio, calculated by dividing the internal funds by the total project capital required for the project, of less than 35%; restricting the grant or extension of revolving credit facilities to property developers holding a large amount of idle land and vacant commodity properties; and prohibiting commercial banks from taking commodity properties which have been vacant for more than three years as security for mortgage loans; and
- imposing a business tax levy on the entire sales proceeds from re-sale of properties if the holding period is shorter than five years, effective from June 1, 2006, as opposed to two years as such levy was initially implemented from June 2005; where an individual transfers a residential property other than an ordinary residential property after five years from his/her purchase, the business tax will be levied on the difference between the price for such re-sale and the original purchase price.

On May 30, 2006, the Ministry of Land and Resources published the “Urgent Notice on Tightening Land Administration” (關於當前進一步從嚴土地管理的緊急通知). In this Notice, the Ministry of Land and Resources stressed that local governments must adhere to their annual overall land use planning and land supply plans and tighten the control on land supply for non-agricultural use. The Notice requires local

governments to suspend the supply of land for new villa projects to ensure adequate supply of land for more affordable housing and to strictly enforce the regulations regarding penalty on and forfeiture of idle land. In this Notice, the Ministry of Land and Resources also requires local governments to investigate on illegal use of land and submit a report on such investigations to the Ministry of Land and Resources by the end of October 2006.

To carry out “Opinions on Adjusting the Housing Supply Structure and Stabilizing Housing Prices,” the Ministry of Construction promulgated “Opinions on Carrying Out Structure Proportion of Newly-Built Housing” (關於落實新建住房結構比例要求的若干意見) on July 6, 2006 and made supplemental requirements on the proportion of newly built housing structure as follows:

- from June 1, 2006, in any city (including county), the floor area of the housing which is less than 90 square meters should total at least 70% of the total floor area of commercial commodities newly approved or constructed in a given year;
- according to the above requirements, the governments should guarantee the conditions of planning and design of newly built commodity buildings and that such buildings conform to the structure proportion requirements. Any digression from the above-mentioned requirements without authorization is forbidden. Construction works planning permits should not be issued by the municipal planning authority if there is any noncompliance with the planning permits; certifications should not be issued by the authority charged with censoring construction documents; construction works permits should not be issued by the construction authority; permits for pre-sale of commodity buildings should not be issued by the property development authority; and
- for projects which were approved before June 1, 2006 but that have not obtained construction permits, the city governments should adjust specific projects to conform to the structure proportion requirements in that year.

Also on July 6, 2006, the Ministry of Construction, the NDRC and the SAIC promulgated the Notice for the Further Rationalization and Standardization of the Real Estate Market 《關於進一步整頓規範房地產交易秩序的通知》 with serial code of JZF 2006 No. 166 (“166 Notice”). According to the 166 Notice:

- a real estate developer must commence selling the property within 10 days of the receipt of the pre-sale permit for the project;
- the resale of any unit of a pre-sold uncompleted commodity building is prohibited;
- the advertisement of pre-sale prior to obtaining the relevant pre-sale permit is prohibited; and
- standard forms for the sale and purchase of a unit of a commodity building before or after its completion must be made available to a purchaser.

On July 11, 2006, the Ministry of Construction, the MOFCOM, the NDRC, the PBOC, the SAIC and the SAFE jointly promulgated the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market 《關於規範房地產交易外資准入和管理的意見》 which provided as follows:

- an overseas entity or individual investing in real estate in China other than for self-use shall apply for the establishment of a foreign-invested real estate enterprise in accordance with applicable PRC laws and shall only conduct operations within the authorized business scope after obtaining the relevant approvals from and registering with the relevant governmental authorities;
- the registered capital of a foreign-invested real estate enterprise with a total investment of US\$10 million or more shall not be less than 50% of its total investment amount, whereas for a foreign-invested real estate enterprise with a total investment of less than US\$10 million, the current rules on registered capital shall apply;
- a newly established foreign-invested real estate enterprise can only obtain an interim approval certificate and a business license which are valid for one year. The formal approval certificate and business license can be obtained by submitting the land use right certificate to the relevant government departments after the land grant premium for the land has been paid;

- an equity transfer of a foreign-invested real estate enterprise or the transfer of its projects, as well as the acquisition of a domestic real estate enterprise by foreign investors, must first be approved by the relevant commerce administration authorities. The investor shall submit a letter to the relevant commerce authorities confirming that it will abide with the land grant contract, the construction land planning permit and the construction works planning permit. In addition, the investor shall also submit the land use rights certificate, the registration of change of investor and evidence from the tax authorities confirming that tax relating to the transfer has been fully paid;
- foreign investors acquiring a domestic real estate enterprise through an equity transfer, acquiring the Chinese investors' equity interest in an equity joint venture or through any other methods shall pay the purchase price from its own capital and shall ensure that the enterprise's employees and bank loans are properly handled with in accordance with applicable PRC laws;
- if the registered capital of a foreign-invested real estate enterprise is not yet fully paid, its land use right certificate has not been obtained or the paid-in capital is less than 35% of the total investment amount of the project, the foreign-invested real estate enterprise is prohibited from borrowing from any domestic or foreign lenders and the SAFE shall not approve the settlement of any foreign loans;
- the investors in a foreign-invested real estate enterprise shall not in any manner stipulate a fixed return clause or equivalent clause in their joint venture contract or in any other documents; and
- a branch or representative office established by a foreign investor in China (other than a foreign-invested real estate enterprise), or a foreign individual working or studying in the PRC for more than one year, is permitted to purchase commodity residential properties located in the PRC only for the purpose of self-residence. Residents of Hong Kong, Macau and Taiwan and overseas Chinese may purchase commodity residential properties of a stipulated floor area based on their living requirements in the PRC for self-residence purposes.

On September 1, 2006, the SAFE and the Ministry of Construction jointly issued Notice in respect of Standardization of Issues Relating to Management of Foreign Exchange of Real Estate Market (關於規範房地產市場外匯管理有關問題的通知). This notice provides, among other things, the specific procedures for purchasing houses by branches and representative offices established in the PRC by foreign institutions, foreign individuals who work or study in the PRC for more than one year, and residents of Hong Kong, Macau and Taiwan as well as foreigners of Chinese origin.

On May 23, 2007, the MOFCOM and the SAFE promulgated the Circular on Further Reinforce and Standardize the Examination and Supervision on Foreign Direct Investment in Real Estate Industry (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) (Shang Zi Han No. 50, 2007). The Circular provides stricter controlling measures including, among others:

- Where the application is filed for establishment of the real estate company, the land use right, the ownership of the real property should be obtained first, or the pre-assignment/ purchase agreement has already been concluded with the land administration authority, land developer/owner of the real property. If the above requirements have not been satisfied, the approval authority shall not approve the application.
- Acquisition of or investment in domestic real estate enterprises by way of return investment (including the same actual controlling person) shall be strictly controlled. Oversea investors may not avoid approval for foreign investment in real estate by way of changing the actual controlling person of the domestic real estate enterprise. Once the foreign exchange authority has found the foreign-invested real estate enterprise established by way of deliberately avoiding and false representation, it shall take action against the enterprise's conduct of remittance of capital and interest accrued without approval, and the enterprise shall bear the liability for cheated purchase and evasion of foreign exchange.
- Agreement as to any fixed return or of the same effect for either party of a foreign-invested real property enterprises is prohibited.

- The local SAFE administrative authority and designated foreign exchange banks shall not conduct foreign exchange purchase and settlement process for any foreign-invested real property enterprises who fail to satisfy the MOC for filing requirement or annual review procedure.

On July 10, 2007, the SAFE issued a circular indicating that it would not process for foreign investment enterprises in the real estate sector any foreign debt registration or conversion of foreign debt that was approved by the local MOFCOM and filed with the MOFCOM after June 1, 2007. As PRC companies cannot repay any loans or interests associated therewith, under the PRC foreign exchange control system, to persons outside the PRC without the foreign debt registration with the SAFE, this new circular effectively prohibits the ability of overseas real estate companies to fund their PRC subsidiaries in the form of loans. Therefore, the proceeds of the current offering that will be used for land acquisitions and developments in China can only be transferred to their PRC subsidiaries as equity investments and not as loans.

On October 10, 2007, the Ministry of Land and Resources issued a new regulation, which provides that property developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use rights certificate and/or commence development on the land, effective November 1, 2007.

Pursuant to the notice 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) 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 square meters, 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. However, the aforesaid preferential policy regarding deed tax has been replaced by the Notice on Adjustment of Preferential Policies Regarding Deed Tax and Individual Income Tax Incurred in Transfer of Real Property《關於調整房地產交易環節契稅個人所得稅優惠政策的通知》jointly promulgated by the Ministry of Finance, State Administration of Taxation and MOHURD in September 2010, pursuant to which, where an individual purchases an ordinary house, which is the only house for their family (including the purchaser, the spouse and minor children), the deed tax is reduced by half; where an individual purchases an ordinary house with an GFA of 90 square meters or less, which is the only house for their family (including the purchaser, the spouse and minor children), the deed tax is levied at a rate of 1%.

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 opinions, 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 an 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) 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 of residential units in 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 changing market conditions 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.

In January 2010, the General Office of the State Council 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》, adopted a series of measures to strengthen and improve the regulation of the property market, stabilize market expectation

and facilitate the stable and healthy development of the property market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of property, curb speculation of properties, and strengthen risk prevention and market supervision. Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), which has already purchased a residence through mortgage financing and has applied to purchase a second or more residences through mortgage financing, to pay a minimum down payment of 40% of the purchase price.

On February 1, 2010, CBRC issued a Notice on Relevant Issues on Strengthening Administration of Real Estate Trust Business of Trust Companies 《關於加強信託公司房地產信託業務監管有關問題的通知》, which provides that, among other things, real estate projects must meet the following conditions to be eligible for loan financing from trust companies: (1) real estate projects must have obtained the land use rights certificates, construction land planning permits, construction works planning permits and construction permits; (2) developers or their controlling shareholders must be qualified as class 2 developers or higher; (3) the capital ratio of the project must satisfy the minimum requirements set by relevant authorities; and (4) trust companies may not provide trust funds to finance the land reserves.

On April 17, 2010, the State Council issued the April 2010 Notice 《關於堅決遏制部分城市房價過快上漲的通知》 which provides that: (i) if a first-time home buyer (including a borrower and his or her spouse and minor children) buys a residence with a unit floor area of more than 90 square meters for self use, the minimum down payment shall be at least 30%; (ii) if a second-time home buyer uses mortgage financing, the minimum down payment shall be at least 50% of the purchase price with a minimum mortgage lending interest rate at least 1.1 times the benchmark rate; (iii) if a third-time or more homebuyer uses mortgage financing, the minimum down payment and interest rate thereof will be further raised.

The April 2010 Notice further requires that in cities where property prices are overly high with excessive price hikes and strained housing supply, commercial banks may suspend extending bank loans for third-time or more home buyers in light of risk exposure. The notice also provides for the suspension of the provision of mortgage loans to non-local residents who cannot present the local tax clearance certificates or social security insurances certification for more than one year.

Three authorities, including MOHURD, the PBOC and the CBRC, jointly released the Circular on Regulating the Criteria for Identifying the Second Residential Property in Connection with Commercial Mortgage Loans 《關於規範商業性個人住房貸款中第二套住房認定標準的通知》 on May 26, 2010, so as to regulate cognition of applicants for commercial housing loans as a second-time or more purchaser (hereinafter referred to as the loan applicants). Under the Circular, number of houses owned by a family in the commercial housing loans for individuals shall be calculated according to number of sets of houses which are actually owned by members (including the loan applicant and his/her spouse and under-age children, hereinafter the same) of the family who plans to purchase a house. The Circular also stipulated that house purchasers shall check the house registration records of the family via the house registration system, and shall provide the results in written. The loan applicant shall provide the credit guarantee in written to prove the actual number of houses owned by his/her family.

On September 29, 2010, the PBOC and the CBRC jointly issued the Notice on Relevant Issues regarding the Improvement of Differential Mortgage Loan Policies 《關於完善差別化住房信貸政策有關問題的通知》, which stipulates that all commercial banks shall suspend issuing housing loans to home buyers whose family members already own two or more housing properties and to non-local residents who cannot provide evidence that they have paid taxes or social security insurance contribution for more than one year. All commercial banks must also stop issuing loans or providing loan extensions to any real estate developer which has records of having idle land, changing the land use purpose and nature, delaying project commencement or completion time, hoarding land or other infractions.

On September 29, 2010, the State Administration of Taxation, the Ministry of Finance and MOHURD issued the Circular on Adjustments to Policies on Preferential Deed Tax and Individual Income Tax on Real Estate Deals 《關於調整房地產交易環節契稅個人所得稅優惠政策的通知》, which provides that where an individual purchases an ordinary residential property, which is the sole residential property of their family, deed tax thereon shall be levied at a reduced half-rate. Where an individual purchases an ordinary residential property of 90 square meters or less, which is the sole house for his/her family to live in, the deed tax shall be reduced and levied at the rate of 1%. The tax authority shall inquire about the deed tax payment record of a taxpayer. In respect of individual purchases of ordinary residential property that fail to satisfy the above provisions, no preferential tax policies set out above may be enjoyed. No

individual income tax shall be reduced or exempted for any taxpayer who sells his/her living house and re-purchases a house within one year.

In November 2010, the Ministry of Finance, MOHURD, the CBRC and the PBOC jointly issued the Notice on Relevant Issues Concerning Policies of Regulation of Individual Housing Reserve Loans 《關於規範住房公積金個人住房貸款政策有關問題的通知》, which provides that when an individual housing reserve loan is used for a first residential property purchase, (i) if the floor area of the house is no more than 90 square meters, the down-payment shall be at least 20 percent of the purchase price and (ii) if the floor area of the house is more than 90 square meters, the down-payment shall be at least 30 percent of the purchase price. The notice also provides that, if a housing reserve loan is used to purchase a second home, such housing reserve loan is only available to families where the floor area of the first home is less than the local average. In addition, a housing reserve loan used to purchase a second house requires that the down-payment shall be at least 50 percent of the purchase price, and the interest rate of such loan shall be at least 1.1 times the interest rate of the individual housing reserve loan used for the first residential property purchase. Individual housing reserve loans are not permitted to be granted for the purchase of the third or additional houses.

In November 2010, MOHURD and SAFE jointly promulgated the Notice on Further Regulating Administration of Purchase of Houses by Overseas Institutions and Individuals 《關於進一步規範境外機構和個人購房管理的通知》, pursuant to which, an overseas individual can only purchase one house for self-use within the PRC and an overseas institution which has established a branch or representative office in the PRC can only purchase non-residential houses for business use in the city where it is registered within the PRC.

On January 26, 2011, the State Council issued the Notice Concerning Further Strengthening of the Macroeconomic Controls of the Real Property Market 《關於進一步做好房地產市場調控工作有關問題的通知》, which toughened credit controls on developers and raised the minimum mortgage down payments for buying a second home to 60% from 50%, with interest rates at least 1.1 times the benchmark lending rate published by the PBOC. Additional measures include the imposition of a tax on individuals who sell their property within five years after the purchase of such property. Local governments are also mandated to set target property prices in 2011 on factors such as local economic growth and home affordability. These measures are the latest in PRC central government's attempts to cool down the housing market, which has been heating up again since November 2010 (after a temporary lull due to tightening measures introduced in April and September of 2010).

On January 27, 2011, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties 《關於調整個人住房轉讓營業稅政策的通知》, under which business tax is imposed on (i) the full amount of the transfer price upon the transfer of any residential property by an individual owner within five years from such individual owner's purchase of such property and (ii) the difference between the transfer price and the original purchase price upon the transfer of any non-ordinary residential property by an individual owner more than five years from such individual owner's purchase. Business tax is exempted for ordinary residential properties if the transfer occurs after five years from the individual owner's purchase of such property. This notice became effective on January 28, 2011 and replaced by a same name notice on March 13, 2015, which stipulated that business tax is imposed on (i) the full amount of transfer price upon the transfer of any residential property by an individual owner within two years from such individual owner's purchase and (ii) the difference between the transfer price and the original purchase price upon the transfer of any non-ordinary residential property by an individual owner more than two years from such individual owner's purchase. Business tax is exempted for ordinary residential properties if the transfer occurs after two years from the individual owner's purchase.

The State Council has approved on a trial basis the launch of a property tax scheme in selected cities. On January 27, 2011, the governments of Shanghai and Chongqing issued their respective measures for implementing their pilot property tax schemes.

On February 26, 2013, the General Office of the State Council announced the Notice on Continuing to Improve the Regulation and Control of the Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知), which among others, provides the following requirements: (i) limitations on the purchase of commodity properties must be strictly implemented, and the scope of such limitations must cover all newly constructed commodity properties and second-hand properties located within the entire administrative area of the city in question; (ii) for those cities with excessive growth in housing prices,

the local counterparts of the PBOC may further increase down payment ratios and interest rates for loans to purchase second properties in accordance with the price control policies and targets of the corresponding local governments; (iii) the gains generated from the sale of a self-owned property shall be subject to individual income tax at a rate of 20%, if the original value of such property can be verified through historical information such as tax filings and property registration. In the last quarter of 2013, down payment ratios were raised to 70% for second-house purchases in several cities, such as Guangzhou, Shanghai and Hangzhou.

On September 30, 2014, PBOC and CBRC jointly issued the Notice on Further Improving Financial Services for Real Estate Sector (關於進一步做好住房金融服務工作的通知), which provides where a family that owns a residential property and has paid off its existing mortgage loan applies for a new mortgage loan to buy another residential property to improve living conditions, the bank may apply the first-time housing purchase mortgage loan policy. In cities that have lifted housing purchase restrictions on residents or those that have not imposed such restrictions, when a family that owns two residential properties or more and has paid off all the existing mortgage loans applies for a new mortgage loan to buy another residential property, the bank is required to assess the credit profile of the borrower, taking into consideration the solvency, credit standing of the borrower and other factors, and decide the down payment ratio and loan interest rate. In view of the local urbanization plan, banks may provide mortgage loans to non-local residents that meet the conditions required by the related policies.

On March 30, 2015, the PBOC, CBRC and MOHURD jointly issued the Notice on Relevant Issues Concerning the Individual Housing Loan Policy (關於個人住房貸款政策有關問題的通知), which provides that (i) where a family that owns a residential property and has not paid off its existing mortgage loan applies for a new mortgage loan to buy another residential property to improve living conditions, the minimum down payment will be 40% of the property price, with the specific terms of such loan to be decided by the banking financial institution that provides the loan based on the risk profile of the borrower; (ii) where a family applies for a housing reserve loan to buy the first residential property, the minimum down payment will be 20% of the property price; and (iii) where a family that owns a residential property and has paid off its existing mortgage loan applies for a second housing reserve loan to buy another residential property to improve living conditions, the minimum down payment will be 30% of the property price.

On August 27, 2015, the CBRC, the Ministry of Finance and PBOC jointly issued the Notice on Adjusting the Minimum Down Payment Concerning the Housing Individual Housing Reserve Loan (關於調整住房公積金個人住房貸款購房最低首付款比例的通知), which provides that where a family that owns a residential property and has paid off its existing mortgage loan applies for a second housing reserve loan to buy another residential property to improve living conditions, the minimum down payment will reduce from 30% to 20% of the property price. In Beijing, Shanghai, Guangzhou and Shenzhen, the minimum down payment of applying for housing reserve loan to buy a second residential property can be decided by local government in combination with local reality.

### **Regulations on transactions of commodity buildings**

According to the Development Regulations and the Pre-sale Measures, for pre-sale of commodity buildings, the developer shall sign a contract on the pre-sale of a commodity building with the purchaser. The developer shall, within 30 days after signing the contract, apply for registration and filing of the pre-sale commodity building to the relevant property administrative authorities.

Pursuant to the Circular of the General Office of the State Council on Forwarding the Opinions of the Ministry of Construction and other Departments on Stabilizing House Prices on May 9, 2005, there are several regulations when conducting commodity building transactions:

- A buyer of a commodity building is prohibited from conducting any transfer of a pre-sold commodity before completion of construction and obtaining the Property Ownership Certificate. If there is discrepancy in the name of the applicant for property ownership and the name of the advance buyer in the pre-sale contract, the registration organ of the property administration shall not record the application of property ownership.
- A real name system is applied for each property purchase transaction and an immediate archival filing network system is in place for pre-sale contracts of commodity buildings.

On July 6, 2006, the Ministry of Construction, the NDRC, and the SAIC jointly promulgated Notice on Reorganizing and Regulating the Transaction Procedures of Property 《關於落實新建住房結構比例要求的若干意見》 the details of which are as follows:

- A developer should start to sell the commodity buildings within 10 days after receiving the permit for pre-sale of commodity buildings. Without this permit, the pre-sale of commodity buildings is prohibited, as well as subscription (including reservation, registration and number-selecting) and acceptance of any kind of pre-sale payments.
- The property administration authority should establish an immediate network system for pre-sale contracts of commodity buildings and the system should, issue the transaction information of a piece of property. The basic location and information of the commodity building, the schedule of the sale and the rights status should be duly, truly and fully published on the network system and at 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 which is still under construction.
- Without the permit for pre-sale of commodity buildings, no advertisement of the pre-sale of commodity buildings may be issued.
- The property developers with a record of serious irregularity or developers which do not satisfy the requirements of the pre-sale of commodity buildings are not allowed to take part in such sale activities.
- The property administration authority should strictly carry out the regulations of the pre-sale contractor registration and record and apply the real name system for house purchases.

### **Foreign Exchange**

With effect from January 1, 1994, the PRC government abolished its two-tier exchange rate system and replaced it with a unified floating exchange rate system based largely on supply and demand. Financial institutions authorized to deal in foreign currency may enter into foreign exchange transactions at exchange rates within an authorized range above or below the exchange rate published by the PBOC according to market condition. However, despite such developments, RMB is still not a freely-convertible currency.

Pursuant to the Foreign Exchange Control Regulations of the PRC issued by the State Council which came into effect on April 1, 1996 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment of the PRC, which came into effect on July 1, 1996, foreign investment enterprises are permitted to convert their after-tax dividends into foreign exchange and to remit such foreign exchange from their foreign exchange bank accounts in the PRC.

If foreign investment enterprises require foreign exchange services for transactions relating to current account items, they may, without approval of the SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof. If such enterprises need foreign exchange services for the distribution of dividends to their shareholders, they may, on the strength of a board of directors resolution authorizing the distribution of dividends and any other relevant documents, effect payment from their foreign exchange accounts and make such payments at the designated foreign exchange bank.

However, convertibility of foreign exchange in respect of capital account items, like direct investment and capital contributions, is still subject to restriction, and prior approval from the SAFE or its relevant branches must be sought.

In January and April 2005, SAFE issued two regulations that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE also announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardization of all cross-border flows of funds.

In October 2005, SAFE issued the Notice Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) which became effective on November 1, 2005 (“Notice 75”). In July 2014, Notice 75 was abolished by SAFE and was superseded by the Notice Regarding Certain Administrative Measures on Offshore Investing and Financing and Round-trip Investment by PRC Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外



投融資及返程投資外匯管理有關問題的通知》) which was issued by SAFE and became effective on July 4, 2014 (“Notice 37”). Notice 37 requires PRC residents, including both legal and natural persons, to register with the local SAFE branch before making capital contribution to any company outside of China (an “offshore SPV”) with onshore or offshore assets and equities legally owned by PRC residents. In addition, any PRC individual resident who is the shareholder of an offshore SPV is required to update its SAFE registration with the local SAFE branch with respect to that offshore SPV in connection with change of basic information of the offshore SPV such as its company name, business term, shareholding by PRC individual resident, merger, division and with respect to the PRC individual resident in case of any increase or decrease of capital in the offshore SPV, transfer of shares or swap of shares by the PRC individual resident.

On April 28, 2013, the SAFE issued the “Notice Regarding Promulgation of Administrative Measures on Foreign Debt Registration” (《國家外匯管理局關於發布〈外債登記管理辦法〉的通知》), which became effective on May 13, 2013 and includes three appendices: (i) Administrative Measures on Foreign Debt Registration, (ii) Operating Guidelines for Foreign Debt Registration Administration, and (iii) List of Repealed Regulations. The measures stipulate the general provisions on foreign debt registration, administrative provisions on foreign debt account management, use and settlement of foreign debt funds, foreign guarantee for domestic loans, foreign exchange managements for outbound transfer of non-performing assets, as well as relevant punishment provisions. The Operating Guidelines for Foreign Debt Registration Administration (《外債登記管理操作指引》) provide specific operational rules in relation to foreign debts administration, which contain 15 items. Among these 15 items, foreign debt registration of foreign invested real estate enterprises is regulated as follows: (i) foreign invested real estate enterprises established before June 1, 2007, which have increased the registered capital on and after June 1, 2007, may raise foreign debt financing limited to the balance of scope of difference between the total investment and the registered capital. Provided that such scope of difference between the total investment and the registered capital after increasing capital is shorter than that of before increasing capital, the shorter one shall prevail, (ii) that the SAFE will no longer process foreign debt registration or foreign exchange settlement for foreign debt for foreign invested real estate enterprises that obtained approval certificates from and filed with MOFCOM on or after June 1, 2007, and (iii) foreign invested real estate enterprises of which the registered capital has not been fully paid, the land use rights certificate has not been obtained, or the project capital is less than 35% of the total investment of the project, are prohibited from raising foreign debt financing, and the SAFE will not process foreign debt registration for such enterprises.

On May 11, 2013, the SAFE issued the “Notice on Printing and Distributing the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China and the Supporting Documents” (《國家外匯管理局關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》), which includes three appendices as follows: (i) the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China, (ii) the List of Repealed Regulations on Foreign Exchange Administration over Direct Investment in China, and (iii) the Business Operating Guidelines for Domestic Direct Investment.

The Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China (《外國投資者境內直接投資外匯管理規定》) effective on May 13, 2013, set out the general principles for foreign exchange control in direct investments by foreign investors, and specific provisions on the foreign exchange registration, foreign exchange account management, foreign exchange settlement and sales, as well as supervision and administration of banks engaging in the foreign exchange business related to direct investments by foreign investors. The provisions apply to foreign investors setting up foreign invested enterprises, foreign invested projects and foreign invested financial institutions in China through methods of new establishment, mergers or acquisitions, and obtaining the ownership right, control right and business management right of domestic enterprises.

On January 10, 2014, SAFE issued the Notice of the State Administration of Foreign Exchange on the Further Improvement and Adjustment of the Foreign Exchange Control Policy for Capital Accounts (國家外匯管理局關於進一步改進和調整資本項目外匯管理政策的通知), effective on February 10, 2014, which provides for, among others: (i) loosening of certain administrative procedures for the initial expenses outlay for overseas direct investments by domestic enterprises; (ii) loosening of certain restrictions on overseas lending by domestic enterprises; (iii) simplifying the procedures for remitting profits offshore by domestic enterprises.

On February 13, 2015, the SAFE issued Notice on Further Simplification and Improvement of Foreign Exchange Administration Policies over Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知), effective on June 1, 2015. The notice cancelled the approval for the registration of direct investment onshore and offshore, and simplified parts of the business procedures of direct investment.

On March 30, 2015, the SAFE issued Notice on the Reform of Foreign Investment Enterprises of Foreign Exchange Capital Settlement Management (關於改革外商投資企業外匯資本金結匯管理方式的通知), effective on June 1, 2015. The notice provided that willingness exchange settlement system was carried out.

On August 19, 2015, MOHURD, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued the Circular on Adjusting the Admittance and Administration of Foreign Capital in the Real Estate Market (關於調整房地產市場外資准入和管理有關政策的通知). According to his circular, the foreign invested real estate enterprises can directly conduct foreign exchange registration concerning foreign direct investment in bank according to foreign exchange regulations

### **Environment Protection in the Development of Real Estate**

The laws and regulations governing the environmental requirements for real estate developments in the PRC include the Environmental Protection Law (中華人民共和國環境保護法), the Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例). Pursuant to those laws and regulations, the developer shall, in the phase of construction project feasibility study, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form to the relevant government authorities for approval before commencement of construction. When there is a material change in respect of the construction site, or in the scale or nature of a given project, a new environmental impact assessment report must be submitted for approval. Simultaneous design, simultaneous construction and simultaneous going into operation with the main body project must be realized for matching environmental protection facilities construction which is required for the construction project. In addition, the developer shall, during the trial production of a construction project, monitor the operations of the environmental protection facilities and the environmental impact of the construction project. On completion of construction, the developer shall file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks. Acceptance checks for completion of construction of environmental protection facilities shall be conducted simultaneously with the acceptance checks for of the main body project.

The Ministry of Environmental Protection issued the Rules on the Examination and Approval of Environmental Impact Assessment Documents of Construction Projects by Authorities at Various Levels (建設項目環境影響評價文件分級審批規定) on January 16, 2009, effective from March 1, 2009. According to the Rules, the power endowed to the authorities at various levels in charge of the examination and approval of environmental impact assessment documents of construction projects shall, in principle, be determined in accordance with the power to examine, approve, verify and file the construction project concerned as well as the nature and degree of the environmental impact brought by the construction project concerned. The Ministry of Environmental Protection may entrust the local environmental protection department at provincial level at the place of the project to exercise part of its statutory power of examination and approval, in which case, public announcement thereof shall be made.

## MANAGEMENT

The following table sets forth certain information with respect to our directors and senior management as of the date of this offering circular.

Name	Age	Title
Mr. HOI Kin Hong <sup>(3)</sup> . . . . .	64	Chairman of the board
Mr. HOI Wa Fong <sup>(2)</sup> . . . . .	38	Executive Director and Chief Executive Officer
Mr. XIAO Qing Ping . . . . .	67	Executive Director and Deputy Chief Executive Officer
Ms. SHIH Sze Ni . . . . .	35	Executive Director
Mr. ZHANG Hong Feng . . . . .	48	Executive Director and vice president and general manager of operation management centre
Ms. HOI Wa Fan . . . . .	40	Non-Executive Director
Mr. NGAI Wai Fung <sup>(1)</sup> . . . . .	54	Independent non-Executive Director
Mr. MEI Jian Ping <sup>(1)(2)(3)</sup> . . . . .	56	Independent non-Executive Director
Mr. DING Zu Yu <sup>(1)(2)(3)</sup> . . . . .	43	Independent non-Executive Director
Mr. LIAO Ming Shun . . . . .	52	Vice president and Chief Financial Officer
Mr. HONG Qun Feng . . . . .	43	General manager of Powerlong Land Development Limited
Mr. ZHENG Yong Tang . . . . .	40	Vice president and general manager of investment development centre
Ms. LV Cui Hua . . . . .	40	Vice president and general manager of cost control centre
Ms. YIP Yim Ting, Fanny . . . . .	29	Company secretary and Board secretary

*Notes:*

- (1) member of the Audit Committee
- (2) member of the Remuneration Committee
- (3) member of the Nomination Committee

### DIRECTORS

Our board of directors consists of nine directors, three of whom are independent non-executive directors. Hoi Wa Fong and Hoi Wa Fan are children of Hoi Kin Hong and Shih Sze Ni is the spouse of Hoi Wa Fong. Our directors are elected at meetings of the shareholders of the Company for a term of three years, renewable upon re-election and re-appointment.

A description of the business experience and present employment of each of our directors is provided below.

#### Executive Directors

**HOI Kin Hong**, aged 64, is an executive Director and the Chairman of the Board. He is primarily responsible for the overall strategy and investment decisions of the Group. Mr. Hoi is a member of the Chinese People’s Political Consultative Conference and of the plenary meeting of the Selection Committee of the Macau Special Administrative Region of the People’s Republic of China. He is also the vice chairman of All-China Federation of Industry & Commerce. Mr. Hoi founded Powerlong Group Development Co., Ltd. (the “Xiamen Powerlong Group”) in 1992 and has served as its chairman. Since the establishment of Xiamen Powerlong Group, he has been engaged in the real estate development business, and has completed the development of several residential projects. He started to specialize in the development of commercial properties in 2003. For each of the years since 2006, Mr. Hoi was recognized as a Contributor to Real Estate Brands in China by the China Real Estate Top 10 Research Team. In addition, Mr. Hoi was also awarded various honours such as the Most Influential Entrepreneur in China, Top 30 People in motivating Chinese Economy over the 30 years of China’s reformation, the Outstanding Leader in the Commercial Real Estate Industry in China, China Top 100 Real Estate Entrepreneurs and Award for Excellence in the 20th Anniversary of China Guangcai Program Outstanding Contribution Award. Mr. Hoi is the father of Mr. Hoi Wa Fong and Ms. Hoi Wa Fan, an executive Director and non-executive Director, respectively.

**HOI Wa Fong**, aged 38, is an executive Director and Chief Executive Officer of the Group. He is primarily responsible for the overall management of the business operations of the Group. Mr. Hoi Wa Fong is a member of All-China Federation of Returned Overseas Chinese, a director of China Overseas Friendship Association, a member of Chinese People's Political Consultative Conference for the city of Shanghai, a member of Chinese People's Political Consultative Conference for the city of Xiamen and vice chairman of Real Estate Chamber of Commerce of National Federation of Industry and Commerce. He graduated from the School of Management of Xiamen University and received an EMBA from the Cheung Kong Graduate School of Business. He joined Xiamen Powerlong Group since 1999 and started his career from junior positions. He held various positions including vice general manager, general manager, vice president, chief vice president and chief executive officer. He was awarded Top 10 New Leaders in the Real Estate Industry in the PRC, one of the Top 10 Outstanding Young Entrepreneurs in Fujian Province, New Person of the Year in the Real Estate Industry in the PRC from CIHAF and so forth. Since 2013, he has been awarded Most Influential People in the Real Estate Industry in the PRC and Person of the Year in China Commercial Real Estate Value List for two consecutive years. Mr. Hoi Wa Fong is the son of Mr. Hoi Kin Hong, an executive Director and the Chairman of the Board.

**XIAO Qing Ping**, aged 67, is an executive Director and the Deputy Chief Executive Officer of the Group. Mr. Xiao is primarily responsible for the administration management of the Group. He was an officer of Jinjiang Bureau of Land Administration from 1997 to 1999. He has over 30 years of experience in administration management. He joined Xiamen Powerlong Group in October 2001 as vice president and head of administration. In November 2007, he resigned from his position in Xiamen Powerlong Group and joined the Group as an executive Director. He graduated from China Textile Political Distance Learning College in 1988, majoring in economic management.

**SHIH Sze Ni**, aged 35, is an executive Director. Ms. Shih is primarily responsible for the commercial operation of the Group. Ms. Shih graduated from Central Queensland University in Australia with a master's degree in arts administration, and obtained an EMBA degree from the Cheung Kong Graduate School of Business in September 2014. She joined Xiamen Powerlong Hotel in January 2003 as a director and was primarily responsible for financial management. She then joined Xiamen Powerlong Group in 2005 as a director and general manager of the finance department. In November 2007, she held the positions of executive Director, general manager of supervision department and cost control centre. She has been fully directing the operation of commercial group since April 2011. Ms. Shih Sze Ni is the wife of Mr. Hoi Wa Fong, an executive Director.

**ZHANG Hong Feng**, aged 48, is an executive Director and the vice president and general manager of operation management centre of the Company. Mr. Zhang is responsible for the operation platform and person-in-charge of operation management centre, cost control centre and technology development centre of the Group. Mr. Zhang was a department manager of Tianyu Real Estate Company, an assistant to the general manager of Anbao Real Estate Development Company Limited, a deputy general manager of the real estate centre of Xiamen Powerlong Group, an executive director of Suzhou Powerlong Real Estate Development Company Limited, an executive director of Suqian Powerlong Property Development Company Limited, a general manager of Suqian Powerlong Commercial Property Management Company Limited, a general manager of Tianjin Powerlong City Company, a regional deputy general manager of the southern region, a general manager of project management centre, and a vice president and a general manager of companies in other provinces and regions of the Company. Mr. Zhang obtained a bachelor's degree in industrial electrical automation from Guangxi University in July 1989 and is currently pursuing a degree of executive master in business administration at Tongji University. He joined the Company in December 2004.

#### **Non-Executive Director**

**HOI Wa Fan**, aged 40, is a non-executive Director. Ms. Hoi is the managing director of Macau Powerlong Group and is responsible for the overall management and business development of Macau Powerlong Group. She is a member of All-China Youth Federation. Since 2000, she has been the managing director of Nicole, a fashion brand concept store in Macau. In December 2011, she established Ultra City Co., Ltd. and held the position of managing director. She was responsible for the overall management of business operation of Ultra City Co., Ltd. Ms. Hoi is the daughter of Mr. Hoi Kin Hong, an executive Director and the Chairman of the Board.

## Independent Non-executive Directors

**NGAI Wai Fung**, aged 54, is an independent non-executive Director, the managing director of MNCOR Consulting Limited and the chief executive officer of SW Corporate Services Group Limited, a specialty corporate governance and compliance services provider to companies in pre-IPO and post-IPO stages. Prior to that, he was the director and head of listing services of an independent integrated corporate services provider. He has over 20 years of senior management experience including acting as the executive director, chief financial officer and company secretary, most of which are in the areas of finance, accounting, internal control and regulatory compliance, corporate governance and secretarial work for listed issuers including major red chips companies. Mr. Ngai had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities. He is a president of Hong Kong Institute of Chartered Secretaries. He was appointed by the Chief Executive of the Hong Kong Special Administrative Region as a member of the Working Group on Professional Services under the Economic Development Commission for 2 years in 2013 and reappointed for further 2 years in 2015, the Adjunct Professor of Department of Law of Hong Kong Shue Yan University, a member of the Qualification and Examination Board of the Hong Kong Institute of Certified Public Accountants and a member of the General Committee of the Chamber of Hong Kong Listed Companies. Mr. Ngai is currently an independent non-executive director, the member/chairman of the audit committee and an independent director of BaWang International (Group) Holding Limited, Bosideng International Holdings Limited, Biostime International Holdings Limited, China Coal Energy Company Limited, China Railway Group Limited, Juda International Holdings Limited, Sany Heavy Equipment International Holdings Company Limited, SITC International Holdings Company Limited, Yangtze Optical Fibre and Cable Joint Stock Limited Company and LDK Solar Co., Ltd. Apart from LDK Solar Co., Ltd., which was listed on the New York Stock Exchange (now listed on the OTC Pink Limited Information), all of which are companies listed on the Hong Kong Stock Exchange and/or the Shanghai Stock Exchange. Mr. Ngai is a fellow of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the Hong Kong Institute of Chartered Secretaries, a fellow of Hong Kong Institute of Directors and a member of Hong Kong Securities and Investment Institute. Mr. Ngai received a doctoral degree in finance at Shanghai University of Finance and Economics in 2011, a master's degree in corporate finance from Hong Kong Polytechnic University in 2002 and a bachelor honor degree in laws from University of Wolverhampton in the United Kingdom in 1994 and a master's degree in business administration from Andrews University of Michigan in the United States in 1992.

Mr. Ngai was an independent non-executive director and a member of the audit committee of China Life Insurance Company Limited, Franshion Properties (China) Limited and China Railway Construction Corporation Limited.

**MEI Jian Ping**, aged 56, is an independent non-executive Director. Mr. Mei has been a professor of finance at Cheung Kong Graduate School of Business since 2006. He was an assistant professor from 1990 to 1995 at New York University, and an associate professor of finance at the same university from 1996 to 2005. From 2003 to 2008, he was a visiting professor at Tsinghua University. Mr. Mei has been a director of Cratings.com Inc. since 1999. Since 2009, Mr. Mei has served on the board of directors of Zhong De Securities Company Limited. Mr. Mei acted as a consultant for various financial institutions, such as Deutsche Bank, UBS, NCH Capital and Asia Development Bank. He has published a number of books and articles on topics related to finance. Mr. Mei received a bachelor degree in mathematics from Fudan University in 1982, a master degree in economics and a doctorate in economics (finance) from Princeton University in 1988 and 1990, respectively. He was appointed as an independent non-executive Director of the Company in June 2008. He was also appointed as an independent non-executive director of MI Energy Holdings (HK stock code: 1555), Ground Properties Company Limited (HK stock code: 0989) and China Rundong Auto Group Limited (HK stock code: 1365) in 2010, 2013 and 2014 respectively.

**DING Zu Yu**, aged 43, is an independent non-executive Director. He is the chief executive officer of E-House (China) Holdings Limited (NY stock code: EJ), the chief executive officer of CRIC (China) Information Technology Co., Ltd and the general manager of Beijing Institute of Housing Technical Services Association Ltd. He is also an independent director of Sanxiang Co., Ltd (SZ stock code: 000863) and Shanghai Chengtuo Holdings Co., Ltd (SH stock code: 600649). Save as above, he had also held various positions in China Real Estate Information Group Co., Ltd in the past including as a co-president and an executive director from September 2009 to April 2012. He is also currently assuming

important positions in other professional associations and bodies within the PRC real estate industry. He serves as a vice principal of the E-House Research and Training Institute. He is also a secretary-general of the Real Estate Broker Professional Committee Intermediary Committee of the China Real Estate Association, an executive committee member of the China Real Estate Research Association, an adviser on the real estate market for the China's Ministry of Housing and Urban-Rural Development and a member of standing committee of CPPCC of Zhabei District in Shanghai. He was named as "Shanghai Outstanding Young Merchant" in 2012 and was named one of the "Top Ten Shanghai Young Merchants" for 2011 to 2012. He received his bachelor's degree in real estate economics in 1998 and his Ph.D. in economics in 2013 from the East China Normal University.

### **Senior Management**

**LIAO Ming Shun**, aged 52, is the vice president and the Chief Financial Officer of the Company. Mr. Liao is responsible for the overall capital operation and integrated financial control of the Company. He served senior management positions in various large-scale enterprises. Prior to joining the Company, he was the director, chief financial controller and general manager of the finance company of Fujian Great World Enterprises Group Company Limited, the independent director of Fujian Dongbai Enterprise Group Company Limited (SH stock code: 600693), the vice secretary general of private branch of Fujian Accounting Institute, the secretary general of real estate branch of Fujian Taxpayers' Club. He obtained a bachelor's degree in Rural Finance from Fujian Agriculture and Forestry University, and was awarded a master's degree by the Graduate School of Chinese Academy of Social Sciences. He is also qualified as a Senior Accountant, Senior Economist, International Public Accountant, Certified Taxation Accountant, and Financial Planner. He was awarded one of the "Top CFOs for 2012 by the Xinlicai Magazine of Ministry of Finance", "2013 China's Financial Value Leadership Award" and "2014 Huazun Award — Top 10 most Respected Brand Builders who promoted the economic development of the industry"). He joined the Company in August 2009.

**HONG Qun Feng**, aged 43, is the general manager of Powerlong Land Development Limited, responsible for overall operation and management of business of Powerlong Land. Mr. Hong was the market manager, assistant to the general manager and general manager of Xiamen Jindu Property Management Co. Ltd., Xiamen Chengyi Property Investment Co. Ltd. and Xiamen Bairun Property Consulting Co. Ltd. respectively. He joined the Company in 2004.

**ZHENG Yong Tang**, aged 40, is the vice president and general manager of the Company's investment development centre. Mr. Zheng is responsible for the overall investment development, research and development positioning and design management of the Company. He had worked in Xiamen Jindu Property Management Co. Ltd., Xiamen Chengyi Property Investment Co. Ltd. and Xiamen Bairun Property Consultant Co. Ltd.. He was an assistant to the president of Xiamen Powerlong Group, an executive director and general manager of Bengbu Powerlong Real Estate Co., Ltd. and general manager of Qingdao Powerlong Property Development Company Limited and of the Company's investment development centre. He graduated from Xiamen Zhongxin International Computer Institute in 1997 and is currently studying for an EMBA degree in business administration in Xiamen University. He joined the Company in January 2000.

**LV Cui Hua**, aged 40, is the vice president and the general manager of the cost control centre of the Company and is responsible for cost control. Ms. Lv was the person-in-charge of the cost control department of Youfu (Shanghai) Company Limited, person-in-charge of the contract department of CapitalLand China, the deputy general manager and the general manager of the cost control centre of the Company. She is currently studying for an EMBA at Tongji University. She joined the Company in May 2010.

**YIP Yim Ting Fanny**, aged 29, is the company secretary and board secretary. Ms. Yip is responsible for the listing and compliance management of the Company. She graduated from The University of Hong Kong and Monash University and is an associate member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Prior to joining the Group, Ms. Yip has approximately six years of experience in corporate secretarial work in other listed companies in Hong Kong. She joined the Company in August 2015.

## COMPENSATION OF DIRECTORS

During the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, the aggregate amount of salaries, retirement scheme contributions, fee and employees share option scheme paid by us to or on behalf of all of our directors was RMB6.6 million, RMB5.4 million, RMB6.5 million and RMB3.7 million, respectively.

### Directors' Interests in Securities

As of June 30, 2015, the interests of our directors and their associates in equity securities of the Company were as follows:

Name of Director	Capacity	Number of shares of the Company <sup>(1)</sup>	Number of share options <sup>(2)</sup>	Approximate percentage of shareholding/ Underlying shares over the Company's issued shares
Hoi Kin Hong . . . . .	Interest of a controlled corporation	1,805,637,000	—	45.17
	Beneficial owner	27,479,000	—	0.69
	Beneficial owner	986,000 <sup>(3)</sup>	—	0.02
	Beneficial owner	—	2,800,000	0.07
	Interest of spouse	2,800,000	—	0.07
Hoi Wa Fong . . . . .	Interest of a controlled corporation	565,400,000	—	14.14
	Beneficial owner	8,202,000	—	0.21
	Beneficial owner	786,000 <sup>(4)</sup>	—	0.02
	Beneficial owner	—	880,000	0.02
	Interest of spouse	503,400 <sup>(6)</sup>	—	0.01
Hoi Wa Fan . . . . .	Interest of spouse	—	480,000	0.01
	Interest of spouse	—	480,000	0.01
Hoi Wa Fan . . . . .	Interest of a controlled corporation	149,480,000	—	3.74
Xiao Qing Ping . . . . .	Beneficial owner	—	720,000	0.02
	Beneficial owner	811,700 <sup>(5)</sup>	—	0.02
Shih Sze Ni . . . . .	Beneficial owner	—	480,000	0.01
	Beneficial owner	503,400 <sup>(6)</sup>	—	0.01
	Interest of spouse	574,388,000	—	14.37
Guo Jun . . . . .	Interest of spouse	—	880,000	0.02
	Beneficial owner	1,056,000 <sup>(7)</sup>	—	0.03

*Notes:*

- (1) All interests in these shares are long positions.
- (2) These are the share options we granted under the Pre-IPO Share Option Scheme adopted on September 16, 2009.
- (3) These are 662,000 and 324,000 awarded shares granted to Mr. Hoi Kin Hong on May 29, 2014 and June 6, 2013, respectively, under the share award scheme (the "Scheme"). See "Business — Employees share award scheme".
- (4) These are 462,000 and 324,000 awarded shares granted to Mr. Hoi Wa Fong on May 29, 2014 and June 6, 2013, respectively, under the Scheme.
- (5) These are 367,700 and 444,000 awarded shares granted to Mr. Xiao Qing Ping on May 29, 2014 and June 6, 2013, respectively, under the Scheme.
- (6) These are 273,400 and 230,000 awarded shares granted to Ms. Shih Sze Ni on May 29, 2014 and June 6, 2013, respectively, under the Scheme.
- (7) These are 612,000 and 444,000 awarded shares granted to Mr. Guo Jun on May 29, 2014 and June 6, 2013, respectively, under the Scheme.

## **AUDIT COMMITTEE**

We have established an audit committee in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee will be to review and supervise our financial reporting process and internal control system and provide advice and comments to our board. The audit committee consists of three members who are our independent non-executive directors. The chairman of the audit committee is Ngai Wai Fung.

## **REMUNERATION COMMITTEE**

We have established a remuneration committee which consists of Hoi Wa Fong, Mei Jian Ping and Ding Zu Yu. Mei Jian Ping has been appointed as the chairman of the remuneration committee. The remuneration committee considers and recommends to our board the remuneration and other benefits paid by us to our directors and senior management. The remuneration of all our directors and senior management is subject to regular monitoring by the remuneration committee to ensure that levels of their remuneration and compensation are appropriate.

## **NOMINATION COMMITTEE**

We have established a nomination committee which consists of Hoi Kin Hong, Mei Jian Ping and Ding Zu Yu. Hoi Kin Hong has been appointed as the chairman of the nomination committee. The nomination committee considers and recommends to our board suitably qualified persons to become our board members and is responsible for reviewing the structure, size and composition of our board on a regular basis.



## PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of our outstanding shares as of June 30, 2015 by those persons who beneficially owned more than 5% of our outstanding shares and underlying shares, as recorded in the register maintained by us pursuant to Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the “SFO”).

Name of Shareholder	Capacity	Number of shares <sup>(1)</sup> and share options of the Company	Approximate shareholding percentage
Mr. Hoi Kin Hong . . . . .	Interest of a controlled corporation and beneficial owner	1,836,902,000 <sup>(2)</sup>	45.95
	Interest of spouse	2,800,000	0.07
Mr. Hoi Wa Fong . . . . .	Interest of a controlled corporation and beneficial owner	575,268,000 <sup>(3)</sup>	14.39
	Interest of spouse	983,400	0.02
Wason Holdings Limited . . .	Beneficial owner	202,000,000 <sup>(4)</sup>	5.05

*Notes:*

- (1) All interest in these shares are long position.
- (2) Of the 1,836,902,000 shares and underlying shares held, 1,805,637,000 shares were held by Skylong Holdings Limited, a company incorporated in the British Virgin Islands and beneficially owned by Mr. Hoi Kin Hong, 27,479,000 shares were beneficially held by Mr. Hoi Kin Hong, 2,800,000 underlying shares in respect of the share options granted to Mr. Hoi Kin Hong under the Pre-IPO Share Option Scheme and 986,000 shares awarded to Mr. Hoi Kin Hong on May 29, 2014 and June 6, 2013 under the share award scheme (the “Scheme”). See “Business — Employees — Share award scheme.”
- (3) Of the 575,268,000 shares and underlying shares held, 565,400,000 shares were held by Sky Infinity Holdings Limited, a company incorporated in the British Virgin Islands and beneficially owned by Mr. Hoi Wa Fong, 8,202,000 Shares were beneficially held by Mr. Hoi Wa Fong, 880,000 underlying shares in respect of the share options granted to Mr. Hoi Wa Fong under the Pre-IPO Share Option Scheme and 786,000 shares awarded to Mr. Hoi Wa Fong on May 29, 2014 and June 6, 2013 under the Scheme.
- (4) Wason Holdings Limited is beneficially owned as to 70% by Ms. Che Lok Teng, as to 10% by each of Ms. Hoi Wa Lam (許華琳), Ms. Hoi Wa Lam (許華嵐) and Ms. Hoi Wa Weng.

## RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

The following table sets forth certain material transactions between us and our related parties for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
	(unaudited)				
	(in thousands)				
Sales of properties:					
— Mr. Hoi Wa Fong . . . . .	—	—	33,346	—	—
Rental income					
— Qingdao Powerlong Amusement Management Company Limited . .	13,501	—	—	—	—
— Zhengzhou Cannes Outlets Commercial Company Limited. . .	—	—	—	—	—
— Fuzhou Powerlong Amusement Management Company Limited . .	2,308	2,308	2,308	1,154	1,358
	<u>15,809</u>	<u>2,308</u>	<u>2,308</u>	<u>1,154</u>	<u>1,358</u>
Property management fee income					
— Related entities ultimately controlled by Mr. Hoi Kin Hong. .	1,749	797	883	384	386
Purchase of office equipment and security intelligentisation system services from related parties					
— Xiamen Powerlong Information Industry Co., Ltd. . . . .	437	769	5,424	1,033	1,625
— Fujian Ping An Security Devices and Network Limited. . . . .	36,539	41,538	23,582	10,357	21,741
	<u>36,976</u>	<u>42,307</u>	<u>29,006</u>	<u>11,390</u>	<u>23,366</u>
Hotel accommodation service fee charged by a related party					
— Macau Powerlong Group . . . . .	684	812	1,143	777	505
Office lease expense charged by a related party					
— Xiamen Powerlong Information Industry Co., Ltd. . . . .	1,485	1,485	—	—	—
Sales of construction materials to a related party					
— Tianjin Powerlong Jinjun Real Estate Co., Ltd . . . . .	45,405	20,534	44,335	19,665	13,900
— Hangzhou Xiaoshan Powerlong Property Co., Ltd . . . . .	—	—	21,254	—	230

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
	(in thousands)				
— Powerlong Golden Wheel Coral Company . . . . .	—	—	7,209	—	11,144
— Xiamen Powerlong Industry Co., Ltd . . . . .	—	—	38,701	—	—
	<u>45,405</u>	<u>20,534</u>	<u>111,499</u>	<u>19,665</u>	<u>25,274</u>
Consultation services provided to a related party					
— Tianjin Powerlong Jinjun Real Estate Co., Ltd . . . . .	14,586	14,614	17,985	13,089	3,756
— Xiamen Powerlong Industry Co., Ltd . . . . .	—	—	9,384	5,762	—
— Hangzhou Xiaoshan Powerlong Property Co., Ltd. . . . .	—	—	4,369	—	2,489
— Powerlong Golden Wheel Coral Company Limited . . . . .	—	—	—	—	79
	<u>14,586</u>	<u>14,614</u>	<u>31,738</u>	<u>18,851</u>	<u>6,324</u>
Guarantees for borrowings to joint ventures					
— Tianjin Powerlong Jinjun Real Estate Co., Ltd . . . . .	—	993,880	1,020,730	970,730	1,146,330
— Hangzhou Xiaoshan Powerlong Property Co., Ltd . . . . .	—	—	650,000	300,000	415,000
— Shanghai Powerlong Zhanyao Enterprises Development Limited . . . . .	—	—	—	—	720,000
— Powerlong Golden Wheel Coral Company Limited . . . . .	—	—	—	—	150,000
	<u>—</u>	<u>993,880</u>	<u>1,670,730</u>	<u>1,270,730</u>	<u>2,431,330</u>

*Note:*

The transactions were charged in accordance with the terms of the underlying agreements. In the opinion of the directors, the fees were determined with reference to the market price at the prescribed year.

**CONNECTED TRANSACTIONS**

As a listed company on the Hong Kong Stock Exchange, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain “connected transactions” with “connected persons” be approved by the company’s independent shareholders. Each of our connected transactions disclosed hereunder that constitutes a connected transaction or continuing connected transaction within the meaning of the Listing Rules requiring independent shareholders’ approval has been so approved, or has complied with the relevant requirements under or is otherwise exempted from compliance with Chapter 14A of the Listing Rules, as applicable.

**Purchase of Property and Equipment**

In 2012, we renewed our office equipment purchase agreement (“Equipment Purchase Agreement”) with Xiamen Powerlong Information Industry Co., Ltd. (“Xiamen Powerlong”), a company controlled by our chairman and principally engaged in the business of distribution of office equipment, software development and the manufacture and sale of consumables, pursuant to which Xiamen Powerlong has agreed to supply office equipment such as printers, photocopiers, computers and fax machines to us for a

term of three years ending December 31, 2014. On December 24, 2014, both parties entered into a renewal agreement to renew the 2012 agreement for a fixed term of three years commencing on January 1, 2015 to December 31, 2017. For each of the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, office equipment we purchased from Xiamen Powerlong amounted to approximately RMB0.4 million, RMB0.8 million, RMB5.4 million and RMB1.6 million, respectively.

#### **Security Service Agreement**

In 2012, the Company and Fujian Pingan Baojing Network Co., Ltd. (“Pingan Baojing”) renewed the security service agreement for a term of three years commencing from January 1, 2013 to December 31, 2015 (the “Security Service Agreement”) pursuant to which Pingan Baojing provides certain security intelligence system services to us. The basis of determining the service fees under the Security Service Renewal Agreement were determined based on the prevailing rates of Pingan Baojing for similar services to third party customers. For each of the three years ended December 31, 2012, 2013, 2014 and the six months ended June 30, 2015, the service fees paid under the Security Service Agreement amounted to RMB36.5 million, RMB41.5 million, RMB23.6 million and RMB21.7 million.

#### **Sale of a Property to executive Director**

On October 15, 2014, Mr. Hoi Wa Fong, an executive Director and substantial shareholder of the Company, entered into a sale and purchase agreement with Xiamen Powerlong Real Estate Development Co., Ltd., an indirect wholly-owned subsidiary of the Company, pursuant to which Xiamen Powerlong Real Estate Development Co., Ltd. has agreed to sell and Mr. Hoi Wa Fong has agreed to purchase a property at a consideration of RMB33,065,760.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing property projects and to finance our working capital requirements, we have entered into loan agreements with various financial institutions. As of June 30, 2015, our total external borrowings amounted to RMB19,649.1 million. Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

### **PRC Project Loan and Working Capital Loan Agreements**

Certain of our PRC subsidiaries have entered into project and working capital loan agreements with various PRC banks, including primarily Bank of China, The Agricultural Bank of China, China Construction Bank, Industrial and Commercial Bank of China, China Everbright Bank, Industrial Bank, Bank of Beijing, Bank of Communications, and China CITIC Bank. Most of these loans are project loans to finance the construction of our projects and typically have tenors ranging from 6 to 120 months, which generally corresponds to the construction periods of the particular projects. The working capital loans are used to finance the operations of completed investment properties, including cash flow and goods procurement, and generally have longer tenors ranging up to 10 years. Our project loans from PRC banks and working capital loans are usually secured by land use rights and properties and, in some cases, are guaranteed by certain of our other PRC subsidiaries or our controlling shareholder. Certain of our PRC project loans require us to prepay the loan if a certain percentage of GFA of the relevant project has been delivered.

As of June 30, 2015, the aggregate amount outstanding under these loans was RMB2,065.1 million of which was due within one year and RMB10,729.8 million of which was due over one year.

#### *Interest*

The principal amounts outstanding under these loans generally bear interest at floating rates calculated by reference to the relevant bank's benchmark interest rate per annum. Floating interest rates generally are subject to review by the banks annually. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. The working capital loans generally amortize on a straight line basis over their tenors. As of June 30, 2014, the weighted average interest rate on the aggregate outstanding amount of our project loans was 7.5% per annum.

#### *Covenants*

Certain of our PRC subsidiary borrowers have agreed under these loans, among other things, not to take the following actions without first obtaining the lenders' prior consent:

- create encumbrances on any part of their property or assets or deal with their assets in a way that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties or apply for other loans that may adversely affect their ability to repay their loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations; and
- alter the nature or scope of their business operations in any material respect.
- dispose (including sell, grant, mortgage) material assets, most or all of the assets.

#### *Events of Default*

These loans contain certain customary events of default, including insolvency and breaches of the terms of the loan agreements. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

#### *Guarantee and Security*

Certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks in connection with some of the project loans pursuant to which these subsidiaries have guaranteed all

liabilities of the subsidiary borrowers under these project loans. Further, as of June 30, 2014, RMB13,469.9 million of the loans were secured by land use rights and/or properties of the subsidiary borrowers and/or our other PRC subsidiaries.

### **Trust Financing Loans**

Certain of our PRC subsidiaries have entered into trust financing loan agreements with PRC trust companies (the “Trust Financing Loans”) to finance property development or for, general corporate purposes. These Trust Financing Loans typically have a term of one to two years. As of June 30, 2015, we had four Trust Financing Loans of an aggregate principal amount of RMB1,900.9 million with four PRC trust companies, which are for project construction and investment properties. Among these four Trust Financing Loans, one will mature in 2016, two will mature in 2017 and one will mature in 2018.

#### *Interest*

The principal amounts outstanding under the Trust Financing Loans bear a fixed interest rate. Interest payments are payable quarterly or on a payment date as provided in the particular loan agreement.

#### *Covenants*

Under these Trust Financing Loans, some of our PRC subsidiary borrowers have agreed, among other things, not to take the following actions without first notifying the lender or obtaining the lenders’ prior consent:

- transfer, lease or create encumbrances on any part of its pledged assets or dispose any of its pledged assets
- take any action which may adversely affect the value of the pledged assets;
- the occurrence of any material adverse change in the financial condition of the borrower;
- the occurrence of any material litigation pending against the borrower;
- the occurrence of any material investigation by governmental authorities; or
- take any other action which may adversely affect their ability to repay the loans.

#### *Guarantee and security*

Our Trust Financing Loans are guaranteed by the subsidiaries of such PRC subsidiary borrowers or us and/or secured by land use rights of or share capital in our PRC subsidiary borrowers.

### **Offshore Bank Facilities**

In April 2013 (as supplemented by an amendment in April 2014), Kind Sonic Limited entered into a credit facility of up to US\$51.5 million with the Industrial and Commercial Bank of China (Thai) Public Company Limited. As of June 30, 2015, US\$33.1 million was outstanding under this facility.

In December 2013, we entered into a term loan credit facility of up to US\$92.5 million with Bank of Communications Co., Ltd. (Hong Kong Branch). This facility has a tenor of three years. As of June 30, 2015, US\$92.5 million was outstanding under this facility.

In March 2014, we entered into revolving term loan facilities of up to HK\$1,000 million, up to US\$50.0 million and up to US\$40.0 million with Wing Lung Bank Ltd., LUSO International Banking Ltd. and DBS Bank, respectively. The facility with Wing Lung Bank has a tenor of two years while the facilities with LUSO International and DBS Bank each have a tenor of three years. As of June 30, 2015, HKD\$235.8 million, US\$40.8 million and US\$18.6 million was outstanding under our facilities with Wing Lung Bank, LUSO International and DBS Bank, respectively.

In December 2014, we entered into a revolving credit facility of up to US\$52.6 million with Oversea-Chinese Banking Corporation Limited. This facility has a tenor of one year. As of June 30, 2015, US\$50.39 million was outstanding under this facility.

In February 2015, we entered into a credit facility of up to US\$30 million with the Bank of China Frankfurt Branch. The facility has a tenor of one year. As of June 30, 2015, US\$30 million was outstanding under this facility.

In March 2015, we entered into a term loan facility of up to US\$80 million with First Commercial Bank Macau Branch. The facility will mature in March 2016. As of June 30, 2015, US\$62.62 million was outstanding under this facility.

In May 2015, we and Kind Sonic Limited entered into revolving credit facilities and term loans with The Bank of East Asia of up to HKD1,909.6 million (US\$246.4 million). The facilities will be subject to review by the bank in May 2016. As of June 30, 2015, US\$46.2 million was outstanding under such facility.

All of the above credit facilities are backed by standby letters of credit issued by PRC banks, which are in turn secured by cash deposits and other assets of our PRC subsidiaries.

## **2018 Notes**

On January 25, 2013, we entered into an indenture, as supplemented by the supplemental indentures dated January 20, 2014, July 16, 2014 and December 12, 2014 (the “2018 Notes Indenture”), pursuant to which we issued an aggregate principal amount of US\$250,000,000, 11.25% Senior Notes due 2018 (the “2018 Notes”). The 2018 Notes are listed on the Stock Exchange of Hong Kong Limited. As of the date of this offering circular, we had a total amount of US\$250,000,000 principal amount of 2018 Notes outstanding.

### *Guarantee*

The obligations pursuant to the 2018 Notes are guaranteed by our existing subsidiaries, or the 2018 Subsidiary Guarantors, and by our existing joint venture subsidiaries, or the 2018 JV Subsidiary Guarantors, in each case other than those organized under the laws of the PRC and certain other subsidiaries specified in the 2018 Notes Indenture. We refer to these guarantees as the 2018 Subsidiary Guarantees and the 2018 JV Subsidiary Guarantees, respectively. Under certain circumstances and subject to certain conditions, a 2018 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee, or 2018 JV Subsidiary Guarantee.

Each of the 2018 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2018 Notes.

### *Collateral*

The capital stock of the 2018 Subsidiary Guarantors (the “Shared Collateral”) is currently pledged to secure on a *pari passu* basis our obligations under (i) the 2018 Notes and the subsidiary guarantees provided by the guarantor pledgors under the 2018 Notes Indenture, (ii) the 2016 Notes and the subsidiary guarantees provided by the guarantor pledgors under the 2016 Notes Indenture, and (iii) the 2017 Notes and the subsidiary guarantees provided by the guarantor pledgors under the 2017 Notes Indenture, subject to the Intercreditor Agreement. The Intercreditor Agreement governs the relationships among the holders of the 2018 Notes, the holders of the 2016 Notes and the holders of the 2017 Notes in respect of the security interests created by the Shared Collateral that is shared on a *pari passu* basis among them. Additionally, the Intercreditor Agreement provides for the Security Agent to exercise remedies in respect thereof upon the occurrence of an event of default under the secured obligations and to act as specified in the Intercreditor Agreement.

We expect the Trustee for the Notes to become a secured party under the Intercreditor Agreement by executing an accession deed to the Intercreditor Agreement. The Shared Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, we and each Subsidiary Guarantor Pledgor may in the future incur additional permitted *pari passu* secured indebtedness which would be secured by the Collateral on a *pari passu* basis with the 2018 Notes, the 2016 Notes, the 2017 Notes, the Notes and the subsidiary guarantees provided by the subsidiary guarantor pledgors relating to these securities, subject to the Intercreditor Agreement.

#### *Interest*

The 2018 Notes bear interest at a rate of 11.25% per annum, payable semi-annually in arrears on January 25 and July 25 of each year, commencing on July 25, 2013.

#### *Covenants*

Subject to certain conditions and exceptions, the 2018 Notes Indenture, each of the related 2018 Subsidiary Guarantees and each of the 2018 JV Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- (a) incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- (b) declaring dividends on its capital stock or purchasing or redeeming capital stock;
- (c) making investments or other specified restricted investments;
- (d) issuing or selling capital stock of certain of its subsidiaries;
- (e) guaranteeing indebtedness of certain of its subsidiaries;
- (f) selling assets;
- (g) creating liens;
- (h) entering into sale and leaseback transactions;
- (i) entering into agreements that restrict certain of its subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- (j) entering into transactions with shareholders or affiliates; and
- (k) effecting a consolidation or merger.

#### *Events of default*

The events of default under the 2018 Notes include, among others: (a) default in the payment of principal (or premium, if any); (b) default in the payment of interest and such default continues for a period of 30 consecutive days; (c) default in the performance or breach of the provisions of those covenants under the 2018 Notes Indenture in relation to consolidation, merger and sale of assets, the failure by the Company to make or consummate an offer to purchase or the failure by the Company to create, or cause certain of its subsidiaries to create, a lien on the collateral, in accordance with the relevant covenants under the 2018 Notes Indenture; (d) default by the Company or certain of its subsidiaries in the performance of or breach by the Company or certain of its subsidiaries any other covenant or agreement in the 2018 Notes Indenture or under the 2018 Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice by the trustee or the holders of 25% or more in aggregate principal amount of the Notes; (e) default by the Company or certain of its subsidiaries in the repayment of indebtedness having, in the aggregate, an outstanding principal amount in excess of US\$7.5 million; (f) one or more final judgments or orders for the payment of money are rendered against the Company or certain of its subsidiaries and are not paid or discharged, with an aggregate amount exceeding US\$7.5 million; (g) involuntary bankruptcy or insolvency proceedings against the Company or certain of its subsidiaries; (h) voluntary bankruptcy or insolvency proceedings commenced by the Company or certain of its subsidiaries or consent to such similar action or effect any



general assignment for the benefit of creditors; (i) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its guarantees with respect to the obligations of the Notes or, except as permitted by the 2018 Notes Indenture, any such guarantee is determined to be unenforceable or invalid or for any reason ceases to be in full force and effect; (j) default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the security provided under the relevant security documents or the 2018 Notes Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable lien on the collateral pledged or charged to serve as security for the 2018 Notes and the 2018 Subsidiary Guarantees or which adversely affects the condition or value of such collateral, taken as a whole, in any material respect; or (k) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms in writing its obligations under the relevant security documents or, other than in accordance with the 2018 Notes Indenture and the relevant security documents provided under the 2018 Notes, any such relevant security document ceasing to be or is not in full force and effect, or the security agent ceasing to have a security interest in the collateral (subject to any permitted liens). If an event of default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the 2018 Notes then outstanding, may, by written notice, declare the principal of, premium, if any, and accrued and unpaid interest on the 2018 Notes to be immediately due and payable.

*Redemption*

At any time and from time to time on or after January 25, 2016, we may redeem the 2018 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest to the redemption date if redeemed during the twelve month period beginning on January 25 of each of the years indicated below:

<u>Period</u>	<u>Redemption Price</u>
2016 . . . . .	105.6250%
2017 and thereafter . . . . .	102.8125%

At any time prior to January 25, 2016, we may at our option redeem the 2018 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2018 Notes plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date. We will give not less than 30 days’ nor more than 60 days’ notice of redemption.

At any time and from time to time prior to January 25, 2016, we may redeem up to 35% of the aggregate principal amount of the 2018 Notes with the net cash proceeds of one or more sales of our shares in an equity offering at a redemption price of 111.25% the principal amount of the 2018 Notes to be redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the 2018 Notes originally issued on the issue date of the 2018 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

**2016 Notes**

On May 27, 2013, we entered into an indenture, as supplemented by the supplemental indentures dated January 20, 2014, July 16, 2014 and December 12, 2014 (the “2016 Notes Indenture”), pursuant to which we issued an aggregate principal amount of RMB800,000,000 9.50% Senior Notes due 2016 (the “2016 Notes”). The 2016 Notes are listed on the Stock Exchange of Hong Kong Limited. As of the date of this offering circular, we had a total amount of RMB800,000,000 principal amount of 2016 Notes outstanding.

*Guarantee*

The obligations pursuant to the 2016 Notes are guaranteed by our existing subsidiaries, or the 2016 Subsidiary Guarantors, and by our existing joint venture subsidiaries, or the 2016 JV Subsidiary Guarantors, in each case other than those organized under the laws of the PRC and certain other subsidiaries specified in the 2016 Notes Indenture. We refer to these guarantees as the 2016 Subsidiary Guarantees and the 2016 JV Subsidiary Guarantees, respectively. Under certain circumstances and subject to certain conditions, a 2016 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee, or 2016 JV Subsidiary Guarantee.

Each of the 2016 Subsidiary Guarantors, jointly and severally, guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2016 Notes.

#### *Collateral*

The 2016 Notes and the subsidiary guarantees provided by the 2016 Subsidiary Guarantors are secured by the Shared Collateral. See “— 2018 Notes — Collateral.”

#### *Interest*

The 2016 Notes bear interest at a rate of 9.50% per annum, payable semi-annually in arrears on May 27 and November 27 of each year, commencing on November 27, 2013.

#### *Covenants*

Subject to certain conditions and exceptions, the 2016 Notes Indenture, each of the related 2016 Subsidiary Guarantees and each of the related 2016 JV Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- (a) incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- (b) declaring dividends on its capital stock or purchasing or redeeming capital stock;
- (c) making investments or other specified restricted investments;
- (d) issuing or selling capital stock of certain of its subsidiaries;
- (e) guaranteeing indebtedness of certain of its subsidiaries;
- (f) selling assets;
- (g) creating liens;
- (h) entering into sale and leaseback transactions;
- (i) entering into agreements that restrict certain of its subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- (j) entering into transactions with shareholders or affiliates; and
- (k) effecting a consolidation or merger.

#### *Events of default*

The events of default under the 2016 Notes include, among others: (a) default in the payment of principal (or premium, if any); (b) default in the payment of interest and such default continues for a period of 30 consecutive days; (c) default in the performance or breach of the provisions of those covenants under the 2016 Notes Indenture in relation to consolidation, merger and sale of assets, the failure by the Company to make or consummate an offer to purchase or the failure by the Company to create, or cause certain of its subsidiaries to create, a lien on the collateral, in accordance with the relevant covenants under the 2016 Notes Indenture; (d) default by the Company or certain of its subsidiaries in the performance of or breach by the Company or certain of its subsidiaries any other covenant or agreement in the 2016 Notes Indenture or under the 2016 Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice by the trustee or the holders of 25% or more in aggregate principal amount of the Notes; (e) default by the Company or certain of its subsidiaries in the repayment of indebtedness having, in the aggregate, an outstanding principal amount in excess of US\$7.5 million; (f) one or more final judgments or orders for the payment of money are rendered against the Company or certain of its subsidiaries and are not paid or discharged, with an aggregate amount exceeding US\$7.5 million; (g) involuntary bankruptcy or insolvency proceedings against the Company or certain of its subsidiaries; (h) voluntary bankruptcy or insolvency proceedings commenced by the Company or certain of its subsidiaries or consent to such similar action or effect any

general assignment for the benefit of creditors; (i) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its guarantees with respect to the obligations of the Notes or, except as permitted by the 2016 Notes Indenture, any such guarantee is determined to be unenforceable or invalid or for any reason ceases to be in full force and effect; (j) default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the security provided under the relevant security documents or the 2016 Notes Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable lien on the collateral pledged or charged to serve as security for the 2016 Notes and the 2016 Subsidiary Guarantees or which adversely affects the condition or value of such collateral, taken as a whole, in any material respect; or (k) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms in writing its obligations under the relevant security documents or, other than in accordance with the 2016 Notes Indenture and the relevant security documents provided under the 2016 Notes, any such relevant security document ceasing to be or is not in full force and effect, or the security agent ceasing to have a security interest in the collateral (subject to any permitted liens). If an event of default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the 2016 Notes then outstanding, may, by written notice, declare the principal of, premium, if any, and accrued and unpaid interest on the 2016 Notes to be immediately due and payable.

### *Redemption*

At any time, we may at our option redeem the 2016 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2016 Notes plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date. We will give not less than 30 days' nor more than 60 days' notice of redemption. At any time and from time to time prior to January 25, 2016, we may redeem up to 35% of the aggregate principal amount of the 2016 Notes with the net cash proceeds of one or more sales of our shares in an equity offering at a redemption price of 109.50% the principal amount of the 2016 Notes to be redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the 2016 Notes originally issued on the issue date of the 2016 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

### **2017 Notes**

On September 18, 2014, we entered into an indenture (the "2016 Notes Indenture"), pursuant to which we issued an aggregate principal amount of RMB1,500,000,000 10.75% Senior Notes due 2017 (the "2017 Notes"). The 2017 Notes are listed on the Singapore Exchange Securities Trading Limited. As of the date of this offering circular, we had a total amount of RMB1,500,000,000 principal amount of 2017 Notes outstanding.

### *Guarantee*

The obligations pursuant to the 2017 Notes are guaranteed by our existing subsidiaries, or the 2017 Subsidiary Guarantors, and by our existing joint venture subsidiary, or the 2018 JV Subsidiary Guarantors, in each case other than those organized under the laws of the PRC and certain other subsidiaries specified in the 2017 Notes Indenture. We refer to these guarantees as the 2017 Subsidiary Guarantees and the 2017 JV Subsidiary Guarantees, respectively. Under certain circumstances and subject to certain conditions, a 2017 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee, or 2017 JV Subsidiary Guarantee.

Each of the 2017 Subsidiary Guarantors, jointly and severally, guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2017 Notes.

### *Collateral*

The 2017 Notes and the subsidiary guarantees provided by the 2017 Subsidiary Guarantors are secured by the Shared Collateral. See "— 2018 Notes — Collateral."

### *Interest*

The 2017 Notes bear interest at a rate of 10.75% per annum, payable semi-annually in arrears on March 18 and September of each year, commencing on March 18, 2015.

### *Covenants*

Subject to certain conditions and exceptions, the 2017 Notes Indenture, each of the related 2017 Subsidiary Guarantees and each of the related 2017 JV Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- (a) incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- (b) declaring dividends on its capital stock or purchasing or redeeming capital stock;
- (c) making investments or other specified restricted investments;
- (d) issuing or selling capital stock of certain of its subsidiaries;
- (e) guaranteeing indebtedness of certain of its subsidiaries;
- (f) selling assets;
- (g) creating liens;
- (h) entering into sale and leaseback transactions;
- (i) entering into agreements that restrict certain of its subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- (j) entering into transactions with shareholders or affiliates; and
- (k) effecting a consolidation or merger.

### *Events of default*

The events of default under the 2017 Notes include, among others: (a) default in the payment of principal (or premium, if any); (b) default in the payment of interest and such default continues for a period of 30 consecutive days; (c) default in the performance or breach of the provisions of those covenants under the 2017 Notes Indenture in relation to consolidation, merger and sale of assets, the failure by the Company to make or consummate an offer to purchase or the failure by the Company to create, or cause certain of its subsidiaries to create, a lien on the collateral, in accordance with the relevant covenants under the 2017 Notes Indenture; (d) default by the Company or certain of its subsidiaries in the performance of or breach by the Company or certain of its subsidiaries any other covenant or agreement in the 2017 Notes Indenture or under the 2017 Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice by the trustee or the holders of 25% or more in aggregate principal amount of the Notes; (e) default by the Company or certain of its subsidiaries in the repayment of indebtedness having, in the aggregate, an outstanding principal amount in excess of US\$7.5 million; (f) one or more final judgments or orders for the payment of money are rendered against the Company or certain of its subsidiaries and are not paid or discharged, with an aggregate amount exceeding US\$7.5 million; (g) involuntary bankruptcy or insolvency proceedings against the Company or certain of its subsidiaries; (h) voluntary bankruptcy or insolvency proceedings commenced by the Company or certain of its subsidiaries or consent to such similar action or effect any general assignment for the benefit of creditors; (i) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its guarantees with respect to the obligations of the Notes or, except as permitted by the 2016 Notes Indenture, any such guarantee is determined to be unenforceable or invalid or for any reason ceases to be in full force and effect; (j) default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the security provided under the relevant security documents or the 2017 Notes Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable lien on the collateral pledged or charged to serve as security for the 2017 Notes and the 2017 Subsidiary Guarantees or which adversely affects the condition or value of such collateral, taken as a whole, in any material respect; or (k) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms in writing its obligations under the relevant security documents or, other than in accordance with the 2017 Notes Indenture and the relevant security documents provided under the 2016 Notes, any such relevant security document ceasing to be or is not in full force and effect, or the security agent ceasing to have a security interest in the collateral (subject to any permitted liens).

If an event of default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the 2016 Notes then outstanding, may, by written notice, declare the principal of, premium, if any, and accrued and unpaid interest on the 2076 Notes to be immediately due and payable.

### *Redemption*

At any time, we may at our option redeem the 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2017 Notes plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date. We will give not less than 30 days' nor more than 60 days' notice of redemption. At any time and from time to time, we may redeem up to 35% of the aggregate principal amount of the 2017 Notes with the net cash proceeds of one or more sales of our shares in an equity offering at a redemption price of 110.75% the principal amount of the 2017 Notes to be redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the 2017 Notes originally issued on the issue date of the 2016 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

### **Perpetual Capital Instruments**

On June 23, 2014, Shanghai Powerlong Kangsheng Real Estate Co. Limited ("Powerlong Kangsheng"), one of our wholly owned subsidiaries in the PRC, entered into a perpetual loan agreement, pursuant to which Powerlong Kangsheng issued an aggregate principal amount of RMB700 million (US\$112.8 million) perpetual capital instruments, or the Perpetual Capital Instruments. Powerlong Kangsheng issued an additional principal amount of RMB600 million (US\$96.8 million) Perpetual Capital Instruments in December 2014. The Perpetual Capital Instruments are considered as "equity" for our accounting purposes. The proceeds from the issuance of the Perpetual Securities is for the development of Shanghai Huaxin Hongqiao Powerlong City ("Shanghai Huaxin"). As at June 30, 2015, the aggregate outstanding principal amount of the Perpetual Capital Instruments was RMB1,300 million (US\$209.7 million).

### *Guarantee*

The Perpetual Capital Instruments have varying credit support structures and require a guarantee and/or pledge by our PRC subsidiaries in the event the relevant borrowing subsidiary fails to perform its obligations. Under the agreements, two of our PRC subsidiaries have provided such guarantees and two of our PRC subsidiaries have provided pledges. Each of the guarantors guarantee the due and punctual payment of the principal, the distributions on, and all other amounts payable under the perpetual loan agreement.

### *Collateral*

In order to secure the obligations under the perpetual loan agreement, the PRC subsidiaries pledged their shares and/or land use rights for the benefit of the Perpetual Capital Instrument holders. The security interest over the collateral will be released after all payments under the Perpetual Capital Instruments have been paid in full.

### *Distribution*

The Perpetual Capital Instruments provide for annual distributions and initially bear an average distribution rate from between 10% to 12% per annum for the first two years, with a step-up mechanism in the third, fourth and fifth year to a distribution rate of between 13.5% and 20% per annum pursuant to varying schedules. We may elect to defer our distributions if we do not pay dividends on the relevant PRC subsidiary's capital stock for that year, subject to a premium. Such deferral will not constitute an event of default.

### *Covenants*

Except with 60 days prior written notice to the holders and the trustee of the Perpetual Capital Instruments, we are subject to certain covenants that restrict us from, among other things, the following:

- substantial investments;

- restructuring, reorganizing or alteration of share capital;
- mergers and/or acquisitions;
- filing or possible filing for bankruptcy, dissolution, insolvency proceedings;
- loans and guarantees;
- establishment of subsidiaries;
- profit distribution; and
- transfer of property.

Further, without the prior written consent of trustee, Powerlong Kangsheng may not pledge the land use rights or the property under development of Shanghai Huaxin to any third parties.

#### ***Events of default***

The perpetual loan agreement contains certain customary events of default for perpetual debt instruments, among other things, including failure to make payments for principal of, and distributions on, the Perpetual Capital Instruments when due and payable and failure to use the proceeds from the issuance of the Perpetual Capital Instruments in accordance with the terms of the perpetual loan agreement.

#### ***Maturity and redemption***

The Perpetual Capital Instruments do not have a maturity date and do not have any mandatory redemption options. If the Company commences an insolvency proceeding, it must redeem the instruments and repay the principal and all unpaid distributions.

## DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to Powerlong Real Estate Holdings Limited, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company that guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that provides a JV Subsidiary Guarantee (as defined herein) is referred to as a “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantor, as guarantors, and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Security Documents. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at 39/F Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

### Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption “— The Subsidiary Guarantees and JV Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;
- effectively subordinated to the other secured obligations of the Company and the Subsidiary Guarantors and the JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”, the Notes will be secured by the Collateral as described below under the caption “— Security” and will:

- be entitled to a first priority Lien on the Collateral (subject to any Permitted Liens) shared on a *pari passu* basis with (i) the holders of the 2018 Notes, (ii) the holders of the 2016 Notes, (iii) the holders of the 2017 Notes and (iv) any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness;
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law); and
- rank effectively senior in right of payment to unsecured obligations of the Subsidiary Guarantor Pledgors to the extent of the Collateral charged by each Subsidiary Guarantor Pledgor securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on November 26, 2018, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued. The Notes will bear interest at 7.625% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on May 26 and November 26 of each year (each an “Interest Payment Date”), commencing May 26, 2016.

Interest on the Notes will be paid to Note holders (“Holders”) of record at the close of business on May 11 or November 11 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of, premium or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Trustee, then payment of principal, premium or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made by the Company at the office or agency of the Company maintained for that purpose (which initially will be the corporate trust administration office of the Trustee, currently located at 39/F Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong, and the Notes may be presented for registration of transfer or exchange at such office or agency. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants on the Business Day following payment thereof.

#### **The Subsidiary Guarantees and JV Subsidiary Guarantees**

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company’s Restricted Subsidiaries other than the Non-Guarantor Subsidiaries (defined below). All of the Subsidiary Guarantors are holding companies that do not have significant operations.

The following Restricted Subsidiaries will not be Subsidiary Guarantors or JV Subsidiary Guarantors on the Original Issue Date:

- All Subsidiaries organized under the laws of the PRC (together, the “PRC Non-Guarantor Subsidiaries”); and
- Kind Sonic Limited and Wide Evolution Limited (the “Other Non-Guarantor Subsidiaries,” which, together with the PRC Non-Guarantor Subsidiaries, are referred to herein as the “Non-Guarantor Subsidiaries”).

The Company will cause each of the Other Non-Guarantor Subsidiaries to promptly become a Subsidiary Guarantor as soon as reasonably practicable after the Original Issue Date, *provided that* such Other Non-Guarantor Subsidiary would not be required to register as an investment company under the Investment Company Act of 1940, as amended.

None of the existing PRC Non-Guarantor Subsidiaries will at any time in the future provide a Subsidiary Guarantee or JV Subsidiary Guarantee. Moreover, no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries organized under the laws of the PRC and the Other Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.



In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

As of June 30, 2015,

- the Company and its consolidated subsidiaries had total consolidated indebtedness (including short term borrowings and long term borrowings) of approximately RMB19,649.1 million (US\$3,169.2 million);
- the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors had secured indebtedness of approximately RMB4,182.1 million (US\$674.5 million); and
- the Non-Guarantor Subsidiaries had total borrowings (excluding intra-group balances) of approximately RMB15,466.9 million (US\$2,494.7 million).

In addition, as of June 30, 2015, the Non-Guarantor Subsidiaries had capital commitments and contingent liabilities of approximately RMB5,629.8 million (US\$908.0 million).

The Subsidiary Guarantee of each Subsidiary Guarantor:

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

The initial JV Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will be Baohui Real Estate (Hong Kong) Holdings Limited, Powerlong Golden Wheel International Famous Limited and Powerlong Golden Wheel Coral Company Limited. Each of the JV Subsidiary Guarantors is a holding company that does not have significant operations. The JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

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

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC), as soon as practicable and in any event within 30 days after such Person becomes a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes on a senior basis as either a Subsidiary Guarantor or a JV Subsidiary Guarantor; *provided that* such Restricted Subsidiary would not be required to register as an investment company under the Investment Company Act to 1940, as amended. Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date (other than a JV Subsidiary Guarantor) is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture will be a “Subsidiary Guarantor.”

In the case of a Restricted Subsidiary (1) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (2) that is incorporated in any jurisdiction other than the PRC, and (3) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% and no more than 49.9% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase no less than 50.1% of the Capital Stock of an Independent Third Party and designate such entity as a Restricted Subsidiary, the Company may, concurrently with the consummation of such sale, provide a JV Subsidiary Guarantee instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (1) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (2) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and, in the case of the Security Documents, also to the Security Agent:
  - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
  - (ii) a duly executed Security Document that pledges in favor of the Security Agent the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
  - (iii) an Officers' Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
  - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing the JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

In addition, subject to the limitations described in "Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral" and "— Permitted *Pari Passu* Secured Indebtedness," the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor will be secured by the Collateral, pledged by it as described below under the caption "— Security" and:

- will be entitled to a first priority Lien on the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor shared on a *pari passu* basis with (i) the holders of the 2018 Notes, (ii) the holders of the 2016 Notes, (iii) the holders of the 2017 Notes and (iv) any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law); and

- the JV Subsidiary Guarantee of each JV Subsidiary Guarantor will not be secured (each JV Subsidiary Guarantee is not required to pledge the shares of any Restricted Subsidiary that it holds).

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantor will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes *provided that* any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and the JV Subsidiary Guarantor will (1) agree that their respective obligations under the Subsidiary Guarantees and the JV Subsidiary Guarantee, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantee, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantee, as the case may be, will be reinstated with respect to such payments as though such payment had not been made.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable,

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and
- each JV Subsidiary Guarantee will be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

No assurance can be given that the preceding provision limiting the maximum amount of each Subsidiary Guarantee or JV Subsidiary Guarantee will be given effect. If a Subsidiary Guarantee or a JV Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor's liability on its JV Subsidiary Guarantee, as the case may be, could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees."

#### ***Release of the Subsidiary Guarantees and JV Subsidiary Guarantees***

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "— Defeasance — Defeasance and Discharge";
- in the case of a Subsidiary Guarantee, upon the replacement of such Subsidiary Guarantee with a JV Subsidiary Guarantee in compliance with the terms of the Indenture;

- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture; or
- upon the sale of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Certain Covenants — Limitation on Asset Sales” and “— Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture.

#### ***Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees***

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance is for no less than 20% and no more than 49.9% of the Capital Stock of the relevant Subsidiary Guarantor, *provided that* the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee, (b) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company, *provided that* no such appraisal is required if the sale or issuance of Capital Stock to such Independent Third Party is made within 180 days after land use rights are acquired by such Subsidiary Guarantor or any Restricted Subsidiary of such Subsidiary Guarantor;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and in the case of the Security Documents, also to the Security Agent:
  - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC, and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee will be limited to the JV Entitlement Amount;
  - (ii) a duly executed Security Document that pledges in favor of the Security Agent the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
  - (iii) an Officers’ Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
  - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including the “Limitation on Asset Sales” and “Limitation on Restricted Payments” covenants.

Any Net Cash Proceeds from the sale of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the “Limitation on Asset Sales” covenant.

As of the date of the Indenture, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.” However, under the circumstances described below under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries,” the Company will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture, and will not Guarantee the Notes.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee, the Security Agent or the Holders until the Company has delivered to the Trustee and the Security Agent an Officer’s Certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the terms of the Indenture.

## **Security**

The obligations of the Company under the Notes and the Subsidiary Guarantors under the Subsidiary Guarantees will be secured by pledges by the Company and the Subsidiary Guarantor Pledgors on a first priority basis, as the case may be, of the Capital Stock of all of the initial Subsidiary Guarantors and the JV Subsidiary Guarantor (the “Collateral”) owned by the Company or the Subsidiary Guarantor Pledgors (subject to Permitted Liens and the Intercreditor Agreement) on the Original Issue Date.

The Indebtedness represented by the Notes and the Subsidiary Guarantees will constitute “Permitted Pari Passu Indebtedness” under the terms of the indenture and the Security Documents, including the share pledge agreements executed by the Company and the Subsidiary Guarantor Pledgors in favor of the Security Agent. Accordingly, upon execution of an accession deed to the Intercreditor Agreement (as defined below) by the Trustee and the other parties thereto, the Holders of the Notes will have the benefit of the security interests created over the Collateral under the share pledge agreements.

The initial Subsidiary Guarantor Pledgors will be Powerlong Real Estate (BVI) Holdings Limited, Powerlong (BVI) I Limited, Powerlong (BVI) II Limited, Powerlong (BVI) III Limited, Powerlong (BVI) IV Limited, Powerlong (BVI) V Limited, Powerlong Real Estate (Hong Kong) Holdings Limited, China Alliance Worldwide Limited and Powerlong (Hong Kong) II Limited. The Capital Stock pledged by the Company and each initial Subsidiary Guarantor Pledgor will be that of the initial Subsidiary Guarantors, all of which are holding companies or special purpose companies that do not have significant operations or real property assets other than Capital Stock of the Non-Guarantor Subsidiaries.

None of the Capital Stock of the PRC Non-Guarantor Subsidiaries will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future. If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Security Agent.

The Company has also agreed, for the benefit of the holders of the Notes, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor) to pledge, the Capital Stock owned directly by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC) after the Original Issue Date, within 30 days after such Person has become a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges capital stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

The Collateral will be shared on a *pari passu* basis by the holders of the Notes and (i) the holders of the 2018 Notes, (ii) the holders of the 2016 Notes, (iii) the holders of the 2017 Notes and (iv) the holders of any Permitted *Pari Passu* Secured Indebtedness. As of the date of this offering circular, the aggregate principal amount of the 2018 Notes, the 2016 Notes and the 2017 Notes outstanding was approximately, US\$250 million, RMB800 million, and RMB1,500 million respectively. The amount of other Indebtedness secured by the Collateral (other than with respect to Permitted Liens) was nil. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness. The proceeds realizable from the Collateral securing the Notes and the Subsidiary Guarantees (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement (as defined below)) are unlikely to be sufficient to satisfy the Company's and each Subsidiary Guarantor Pledgor's obligations under the Notes and the Subsidiary Guarantees, and the Collateral may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See “— Release of Security” and “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The value of the Collateral will likely not be sufficient to satisfy our obligations under the 2018 Notes, the 2016 Notes, the 2017 Notes and other Permitted *Pari Passu* Secured Indebtedness.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

#### ***Permitted *Pari Passu* Secured Indebtedness***

On or after the Original Issue Date, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Liens for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) and any *Pari Passu* Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any Subsidiary Guarantor Pledgor, “Permitted *Pari Passu* Secured Indebtedness”); *provided that* (1) the Company or such Subsidiary Guarantor Pledgor was permitted to Incur such Indebtedness under the covenant under the caption “— Limitation on Indebtedness and Preferred Stock,” (2) the holders of such Indebtedness (or their representative or agent) become party to the Intercreditor Agreement referred to below; (3) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral that are substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor Pledgor than the provisions of the Indenture and the Security Documents; and (4) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee and the Security Agent an Opinion of Counsel and Officer's Certificate with respect to compliance with the conditions stated immediately above and other corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents. The Trustee or the Security Agent, as the case may be, will be permitted and authorized, without the consent of any Holder, to enter into any amendment to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted *Pari Passu* Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any security or collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted *Pari Passu* Secured Indebtedness).

Except for certain Permitted Liens and the Permitted *Pari Passu* Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Neither the Trustee nor the Security Agent nor any of their officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so, except to the extent of any breach of trust, wilful default, gross negligence or wilful misconduct of the Trustee or the Security Agent.

### ***Intercreditor Agreement***

The Company, the Subsidiary Guarantor Pledgors and the Security Agent, among others, entered into an intercreditor agreement dated March 9, 2011. The 2018 Notes Trustee on behalf of the holders of the 2018 Notes, the 2016 Notes Trustee on behalf of the holders of the 2016 Notes and the 2017 Notes Trustee on behalf of the holders of the 2017 Notes each executed accession deeds to such intercreditor agreement on January 25, 2013, May 27, 2013 and September 18, 2014, respectively (as supplemented by such accession deeds the “Existing Intercreditor Agreement”). On or prior to the Original Issue Date, the Trustee on behalf of the holders of the Notes will have executed an accession deed to the Existing Intercreditor Agreement to accede as a creditor to the Existing Intercreditor Agreement (the Existing Intercreditor Agreement as supplemented from time to time pursuant to the terms thereof, the “Intercreditor Agreement”). The Intercreditor Agreement will provide, among other things, (1) that the Secured Creditors thereunder will share equal priority and pro rata entitlement in and to the Collateral and that the Secured Liabilities shall rank *pari passu* among themselves and the Liens on the Collateral securing the Secured Liabilities shall rank *pari passu* among themselves; (2) for the conditions under which any Lien on such Collateral may be released; and (3) for the conditions under which the Security Agent will take enforcement actions with respect to such Collateral.

By accepting the Notes, each Holder shall be deemed to have consented to the execution and delivery of the Intercreditor Agreement, any amendments or modifications thereto, and any future intercreditor agreement required under the Indenture.

### ***Enforcement of Security***

The first priority Lien securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Security Agent, subject to sharing under the Intercreditor Agreement. The Security Agent for itself and the creditors party to the Intercreditor Agreement will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by such creditors or their respective Creditor Representatives to exercise remedies in accordance with the Security Documents. The Security Agent has agreed to act as secured party on behalf of the creditors under the Debt Documents and under the applicable Security Documents, to follow the instructions provided to it by such creditors or one or more of the Creditor Representatives representing such creditors under the Intercreditor Agreement and to carry out certain other duties. The Trustee will give instructions to the Security Agent in accordance with instructions it receives from the Holders under the Indenture.

The Intercreditor Agreement will provide that the Security Agent will enforce the Collateral in accordance with a written instruction by any Creditor Representative to do so if it does not receive any conflicting instruction, and in the case of conflicting instructions delivered by two or more Creditor Representatives, the Security Agent will only enforce the Collateral upon receiving written instructions from the Majority Creditors. Furthermore, the Intercreditor Agreement will provide that, subject to the rights of any creditor with prior security or any preferential claim under applicable laws, the proceeds of enforcement of any Collateral under the Security Documents will be applied as follows:

first, to the Security Agent to the extent necessary to reimburse the Security Agent for any expenses incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing its remedies under the Security Documents and preserving the Collateral and all amounts for which the Security Agent is entitled to indemnification under the Security Documents;

second, pro-rata, in or towards payment to the Trustee and other agents under the Indenture, as well as each of the Creditor Representatives under the Intercreditor Agreement for application against any fees, costs and expenses payable to them under the applicable Debt Document and any amount for which such Trustees and/or agents are entitled to indemnification under the applicable Debt Document.

third, to the Trustee for the benefit of Holders and, to the extent applicable, to holders of Permitted Pari Passu Secured Indebtedness (or their representative) on a pro rata basis; and

fourth, any surplus remaining after such payments will be paid to the Company (for itself and the Subsidiary Guarantor Pledgors or whomever may be lawfully entitled thereto).

The Security Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification and/or security to its satisfaction. In addition, the Security Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Security Agent's Liens on the Collateral.

Neither the Security Agent nor the Trustee nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so. Nor will the Security Agent nor the Trustee be responsible for (i) the right or title of any person in or to, or the value of, or sufficiency of any part of the Collateral created by the Security Documents; (ii) the priority of any Lien on the Collateral created by the Security Documents; or (iii) the existence of any other Lien affecting any asset secured under a Security Document.

The Security Documents will provide that the Company and the Subsidiary Guarantor Pledgors shall jointly and severally indemnify the Security Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Security Agent arising out of the Security Documents except to the extent that any of the foregoing have resulted from the breach of trust, willful default, gross negligence or willful misconduct of the Security Agent.

This section, “— Enforcement of Security,” shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with “— Permitted Pan Passu Secured Indebtedness” above.

### ***Release of Security***

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption “— Defeasance — Defeasance and Discharge”;
- upon certain dispositions of the Collateral in compliance with the covenants under the captions “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries” or “— Limitation on Asset Sales” or in accordance with the provision under the caption “— Consolidation, Merger and Sale of Assets”;
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture; and
- in connection with and upon execution of a JV Subsidiary Guarantee, all pledges of Capital Stock granted by the JV Subsidiary Guarantor and its direct and indirect Subsidiaries shall be released.



## Further Issues

Subject to the covenants described below, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees and JV Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided that* the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock” covenant described below and the other provisions of the Indenture.

## Optional Redemption

At any time, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date.

At any time, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price equal to 107.625% of the principal amount of the applicable Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided that* at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any recognized securities exchange, in compliance with the requirements of the principal recognized securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any recognized securities exchange, on a pro rata basis, by lot or by such method as the Trustee deems fair and appropriate.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note; *provided, however*, that no such partial redemption shall be allowed if it would result in the issuance of a new Note, representing the unredeemed portion, in an amount of less than US\$1,000. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

## Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a “Change of Control Offer”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company’s failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's and the Subsidiary Guarantor's then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a Change of Control Triggering Event."

On the Offer to Purchase Payment Date, the Company shall to the extent lawful: (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided that* each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture governing the Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

The definition of Change of Control includes a phrase relating to the sale of "all or substantially all" the assets of the Company. Although there is a limited body of case law interpreting the phrase "substantially all," no precise definition of the phrase has been established. Accordingly, the ability of a Holder of Notes to require the Company to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Company to another person or group is uncertain and will be dependent upon particular facts and circumstances.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

## No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

### Additional Amounts

All payments of principal of, and premium and interest on the Notes or under the Subsidiary Guarantees or JV Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “—Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or an applicable JV Subsidiary Guarantor is organized or resident for tax purposes or through which payment is made (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a “Relevant Jurisdiction”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or the applicable JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
  - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
    - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note or Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
    - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
    - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor or JV Subsidiary Guarantor addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required by statute or regulation of a Relevant Jurisdiction to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;
    - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
  - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
  - (c) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November

26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or

- (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

### **Redemption for Taxation Reasons**

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and upon reasonable notice in advance of such notice to Holders to the Trustee, the Paying Agent and the Transfer Agent (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), which change or amendment becomes effective or, in the case of an official position, is announced (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

### **Certain Covenants**

Set forth below are summaries of certain covenants contained in the Indenture.

#### ***Limitation on Indebtedness and Preferred Stock***

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided that* the Company may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.75 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock of Restricted Subsidiaries held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
  - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
  - (b) any Pari Passu Subsidiary Guarantees by any Subsidiary Guarantor or JV Subsidiary Guarantor;
  - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); *provided that* such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness excluded in the proviso contained in the definition of Permitted Subsidiary Indebtedness);
  - (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided that* (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d), (ii) if the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must be unsecured and be expressly subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantee or such JV Subsidiary Guarantor in the case of a JV Subsidiary Guarantor and (iii) if the Indebtedness is owed to the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor, such Indebtedness must be evidenced by an unsubordinated promissory note or a similar instrument under applicable law;
  - (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (o), (p) or (q) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided that* (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new

Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is *pari passu* with, or expressly made subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded and (iii) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; *provided that* in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount), plus (2) the aggregate principal amount outstanding of all Indebtedness permitted under clauses (q) and (r) below (together with refinancings thereof, but excluding any Guarantee Incurred under clauses (q) and (r) below to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;

- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided that* the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
  - (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided, however*, that such Indebtedness is extinguished within five Business Days of Incurrence;
  - (m) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant; or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (f) or (h) above or clause (n) below; or (iii) Guarantees by any JV Subsidiary Guarantor of Indebtedness of any other JV Subsidiary Guarantor that is a direct or indirect Subsidiary or parent of such JV Subsidiary Guarantor, which Indebtedness was permitted to be Incurred by another provision of this covenant;
  - (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided that* the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding does not exceed US\$30 million (or the Dollar Equivalent thereof);
  - (o) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$10 million (or the Dollar Equivalent thereof);
  - (p) Indebtedness Incurred by the Company constituting a Subordinated Shareholder Loan;
  - (q) Indebtedness Incurred by any Restricted Subsidiary incorporated under the laws of the PRC which is secured by Investment Properties or PRC Subsidiaries that own Investment Properties, and Guarantees thereof by the Company or any such Restricted Subsidiary; *provided that* on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (q) (together with refinancings thereof, but excluding any Guarantee Incurred under this clause (q) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness permitted under clauses (h) and (r) does not exceed an amount equal to 20% of Total Assets; and
  - (r) Indebtedness Incurred the Company or by Restricted Subsidiaries constituting Bank Deposit Secured Indebtedness; *provided that* on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate amount outstanding of all Indebtedness permitted under this clause (r) (together with refinancings thereof, but excluding any Guarantee Incurred under this clause (r) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness permitted under clauses (h) and (q) above does not exceed an amount equal to 20% of Total Assets.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of

part (1), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness and only be required to include the amount of such Indebtedness as one of such types.

### ***Limitation on Restricted Payments***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable solely in shares of the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any Subsidiary Guarantor); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”; or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after September 16, 2010, shall exceed the sum of:
  - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter during which the Notes are issued and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
  - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after September 16, 2010 (1) as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds



used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus

(iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to September 16, 2010 of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus

(iv) an amount equal to the sum of:

(A) (1) the net reduction in Investments (that were made after September 16, 2010 and treated as a Restricted Payment under the Indenture, the 2018 Notes Indenture, the 2016 Notes Indenture or the 2017 Notes Indenture) in any Person other than the Company or a Restricted Subsidiary resulting from dividends, repayments of loans or advances or other transfers of Property, in each case to the Company or any Restricted Subsidiary from such Person or the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary (to the extent such Guarantee, when given, constituted a Restricted Payment under the Indenture, the 2018 Notes Indenture, the 2016 Notes Indenture or the 2017 Notes Indenture) or (2) to the extent that an Investment made after September 16, 2010 (that was treated as a Restricted Payment under the Indenture, the 2018 Notes Indenture, the 2016 Notes Indenture or the 2017 Notes Indenture) is sold or otherwise liquidated or repaid for cash, the lesser of (x) the cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, plus

(B) the portion (proportionate to the Company's equity interest in such Unrestricted Subsidiary) of the Fair Market Value of the net assets of an Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary under the Indenture, the 2018 Notes Indenture, the 2016 Notes Indenture or the 2017 Notes Indenture;

*provided, however*, that the foregoing sum shall not exceed, in the case of any Person, the amount of Investments previously made (and treated as a Restricted Payment under the Indenture, the 2018 Notes Indenture, the 2016 Notes Indenture or the 2017 Notes Indenture) by the Company or any Restricted Subsidiary in such Person, and *provided further*, that no amount will be included under this clause (iii) to the extent it is already included in Consolidated Net Income as described in clause (i) of this paragraph; plus

(v) US\$25 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided that* the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided that* the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company; or
- (6) the declaration and payment of dividends by the Company with respect to any financial year up to an aggregate amount not to exceed 20% of the Company's consolidated net profit in such financial year; *provided that* the conditions of clauses (4)(a) and (4)(c) of the first paragraph of this "Limitation on Restricted Payments" would not be violated as a consequence of such declaration and payment of dividends;

*provided that*, in the case of clause (2), (3) or (4) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) (but only to the extent that dividends are paid to persons other than the Company or a Restricted Subsidiary) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this "Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "— Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

***Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries***

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
  - (a) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;

- (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
  - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
  - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
- (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor, Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor or JV Subsidiary Guarantor, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided that* the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
  - (b) existing under or by reason of applicable law, rule, regulation or order;
  - (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided that* the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
  - (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture;
  - (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants;
  - (f) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially adversely affect the ability of the Company to make required payments on the Notes; or
  - (g) with respect to any PRC Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clause (2)(h), (2)(n) or (2)(o) of the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes and, with respect to (2)(h) and (2)(o), any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided that* the encumbrances and restrictions in any

such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

#### ***Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries***

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "Limitation on Restricted Payments" covenant if made on the date of such issuance or sale and *provided that* the Company complies with the "— Limitation on Asset Sales" covenant; or
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided that* the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant.

#### ***Limitation on Issuances of Guarantees by Restricted Subsidiaries***

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any other Restricted Subsidiary, unless (1) (a) such Restricted Subsidiary, simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (2)(c), (d), (m)(ii) (other than, in the case of clause (m)(ii), a Guarantee by a PRC Restricted Subsidiary of the Indebtedness of a non-PRC Restricted Subsidiary), (q) or (r) (but in the case of clauses (q) and (r), only to the extent that the pledge of assets or money deposited in bank accounts by the Company or any Restricted Subsidiary in connection with Indebtedness permitted to be Incurred under those clauses constitutes a Guarantee), under the caption "— Limitation on Indebtedness and Preferred Stock."

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes or any Subsidiary Guarantee or any JV Subsidiary, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

### ***Limitation on Transactions with Shareholders and Affiliates***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 5% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company or such Restricted Subsidiary; and
- (2) the Company delivers to the Trustee:
  - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
  - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1) or (2) of the first paragraph of the covenant described above under the caption “— Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company; and
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the Listing Rules, which as of the Original Issue Date require a majority shareholder approval of any such scheme.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the “Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this Offering Circular, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among the Company and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary; *provided that* in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being a shareholder, officer or director of such Restricted Subsidiary).

### ***Limitation on Liens***

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

#### ***Limitation on Sale and Leaseback Transactions***

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided that* the Company may enter into a Sale and Leaseback Transaction if:

- (1) the Company could have (a) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under “— Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “— Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company applies the proceeds of such transaction in compliance with, the covenant described below under the caption “— Limitation on Asset Sales.”

#### ***Limitation on Asset Sales***

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;
- (3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock” after giving pro forma effect to such Asset Disposition; and
- (4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided that* in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$10 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
  - (a) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
  - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion;

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire Replacement Assets;

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess Proceeds of less than US\$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceeds US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

On the Offer to Purchase Payment Date, the Company shall to the extent lawful: (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided that* each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture governing the Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

The Company will not be required to make an Offer to Purchaser if a third party makes the Offer to Purchase in compliance with the requirements set forth in the indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes (and such other *pari passu* Indebtedness) will be purchased on a pro rata basis by the Company. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

#### ***Limitation on the Company's Business Activities***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than a Permitted Business; *provided, however*, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made by the covenant under the caption “— Limitation on Restricted Payments.”

#### ***Use of Proceeds***

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated, under the caption “Use of Proceeds” in this offering circular and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

#### ***Designation of Restricted and Unrestricted Subsidiaries***

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided that* (1) no Default shall have occurred or be continuing at the time of or after giving effect to such designation; (2) neither the Company nor any Subsidiary Guarantor provides credit support for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under the caption “— Limitation on Liens”; (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “— Limitation on Restricted Payments.”

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided that* (1) no Default shall have occurred or be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “— Limitation on Liens”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under “— Security.”



### ***Government Approvals and Licenses; Compliance with Law***

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

### ***Anti-Layering***

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

### ***Suspension of Certain Covenants***

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both of the Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from either of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (2) “— Certain Covenants — Limitation on Restricted Payments”;
- (3) “— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “— Certain Covenants — Limitation on the Company’s Business Activities”;
- (7) “— Certain Covenants — Limitation on Sale and Leaseback Transactions”; and
- (8) “— Certain Covenants — Limitation on Asset Sales”.

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “— Certain Covenants — Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

### ***Provision of Financial Statements and Reports***

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish
  - (a) to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with the Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided that* if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
  - (b) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
  - (c) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent fiscal semi-annual periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

### **Events of Default**

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under "— Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Limitation on Asset Sales" or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a first priority Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption "— Security";

- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$7.5 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$7.5 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors;
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;
- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents or the Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect;  
or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms in writing its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Security Agent ceases to have a first priority security interest in the Collateral (subject to any Permitted Liens).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See “— Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee of any default or defaults in the performance of any covenants or agreements under the Indenture. See “— Provision of Financial Statements and Reports.”

### **Consolidation, Merger and Sale of Assets**

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the “Surviving Person”) shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong, Bermuda or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which payment is made, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “— Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with or merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than another JV Subsidiary Guarantor, the Company or another Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor) and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture, the Notes, and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which payment is made, and the Indenture, the Notes, and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

*provided that* this paragraph shall not apply to any sale or other disposition that complies with the “— Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “— The Subsidiary Guarantees — Release of the Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

#### **No Payments for Consents**

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an

inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

## **Defeasance**

### ***Defeasance and Discharge***

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee, in trust, money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture;
- (2) the Company has delivered to the Trustee an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees will terminate.

### ***Defeasance of Certain Covenants***

The Indenture further will provide that the provisions of the Indenture will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under “— Consolidation, Merger and Sale of Assets” and all the covenants described herein under “— Certain Covenants,” other than as described under “— Certain Covenants —Government Approvals and Licenses; Compliance with Law” and “— Certain Covenants —Anti-Layering,” clause (3) under “Events of Default” with respect to such clauses (3), (4), (5)(x) and (7) under the first paragraph and such clauses (3), (4), (5)(x) and (6) under the second paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “Events of Default” with respect to such other covenants and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money, an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and the satisfaction of the provisions described in clause (2)(b) of the preceding paragraph.

### ***Defeasance and Certain Other Events of Default***

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph

and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

### ***Amendments and Waiver***

#### ***Amendments Without Consent of Holders***

The Indenture, the Intercreditor Agreement or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes or any Security Document;
- (2) comply with the provisions described under “— Consolidation, Merger and Sale of Assets”;
- (3) evidence and provide for the acceptance of appointment by a successor Trustee or Security Agent;
- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture or the Intercreditor Agreement;
- (7) add additional Collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (8) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (9) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (10) permit Permitted Pari Passu Secured Indebtedness in accordance with the terms of the Indenture (including, without limitation, permitting the Trustee and the Security Agent to enter into the Intercreditor Agreement (if any) or any amendments to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);
- (11) permit the Security Agent to hold the Collateral for the Holders and the holders of any Permitted Pari Passu Secured Indebtedness;
- (12) make any other change that does not materially and adversely affect the rights of any Holder; or
- (13) conform the text of the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees.

#### ***Amendments With Consent of Holders***

Amendments of the Indenture or any Security Document may be made by the Company, the Subsidiary Guarantors, the Security Agent and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount



of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture, the Notes or any Security Documents; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the place or time of payment of principal of, or premium, if any, or interest on, any Note, or change the currency payable on, any Note or change the method of calculation, that would result in the reduction of such principal, premium, if any, or interest;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of any Security Document or any provision of the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;
- (13) consent to the assignment or transfer by the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor of any of their rights or obligations under the Indenture or the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be, except as permitted pursuant to the provisions described under “Consolidations, Merger and Sale of Assets”;
- (14) change the redemption date or the redemption price of the Notes from that stated under the captions “— Optional Redemption” or “— Redemption for Taxation Reasons”;
- (15) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or
- (16) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner which adversely affects the Holders.

#### **Unclaimed Money**

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

## **No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees**

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors, any of the JV Subsidiary Guarantors, or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

## **Concerning the Trustee, the Security Agent, the Paying Agent and Transfer Agent**

Citicorp International Limited has been appointed as Trustee under the Indenture and as Security Agent with respect to the Collateral under the Security Documents, Citibank, N.A., London Branch has been appointed as registrar, the paying agent (the “Paying Agent”) and the transfer agent (the “Transfer Agent”) with regard to the Notes. Except during the continuance of a Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenant or obligation shall be read into the Indenture against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and/or indemnity satisfactory to it against any loss, liability or expense.

The Indenture contains limitations on the rights of the Trustee or the Security Agent, should they become creditors of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee and the Security Agent are permitted to engage in other transactions with the Company and its Affiliates and can profit therefrom without being obliged to account for such profit. The Trustee may have interest in or may be providing or may in the future provide financial or other services to other parties.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

Citicorp International Limited will initially also act as Security Agent under the Security Documents in respect of the Collateral. The Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Security Agent and the Trustee may have obligations under the Indenture and the Security Documents that are in conflict with the interests of the Holders. The Security Agent and the Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents, as applicable, for the benefit of the Holders unless such Holders have offered to the Trustee and/or the Security Agent indemnity and/or security satisfactory to the Trustee and the Security Agent, as applicable, against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Security Agent and the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Security Agent or the Trustee in respect of such risks.

## **Book-Entry; Delivery and Form**

The Notes will be represented by one or more global notes in registered form without interest coupons attached (each a “Global Note”). Beneficial interests in a Global Note may be offered, sold or otherwise transferred only: (i) to the Company or any subsidiary thereof, (ii) outside the United States in a transaction complying with the provisions of Rule 904 under the Securities Act, (iii) pursuant to an available exemption from the registration requirements of the Securities Act or (iv) pursuant to an effective registration statement under the Securities Act, in each of cases in accordance with any applicable securities laws of any State of the United States. On the Original Issue Date, the Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

### *Global Note*

Ownership of beneficial interests in the Global Note (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “— Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depository for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Note for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Trustee, the Security Agent or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

### *Payments on the Global Note*

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and additional amounts) will be made to the Paying Agent. The Paying Agent will, in turn, make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. The Company will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “— Additional Amounts.”

Under the terms of the Indenture, the Company, the Trustee and the Security Agent will treat the registered holder of the Global Note (i.e., the common depository or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Trustee, the Paying Agent and the Transfer Agent or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

### *Redemption of Global Note*

In the event any Global Note, or any portion thereof, is redeemed, the common depository will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depository, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

### *Action by Owners of Book-Entry Interests*

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

### *Transfers*

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "Offering and transfer restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

### *Global Clearance and Settlement Under the Book-Entry System*

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

### *Information Concerning Euroclear and Clearstream*

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Trustee, the Security Agent, the Paying Agent, the Transfer Agent or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to bookentry interests.

#### *Individual Definitive Notes*

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Company within 90 days (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by the Company and the registrar to complete, execute and deliver such individual definitive notes.

Furthermore, if there is an Event of Default under the Notes, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

## **Notices**

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in mails of the relevant jurisdiction (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

## **Consent to Jurisdiction; Service of Process**

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint National Corporate Research, Ltd. for receipt of service of process in any such suit, action or proceeding.

## **Governing Law**

Each of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Indenture will be governed by, and construed in accordance with, the laws of the State of New York. The Security Documents that exist on the Original Issue Date will be governed by the laws of England or Hong Kong, as the case may be.

## **Definitions**

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"2016 Notes" means the RMB800 million 9.5% Senior Notes due 2016 issued by the Company pursuant to the 2016 Notes Indenture.

"2016 Notes Indenture" means the indenture dated May 27, 2013, as amended or supplemented from time to time, governing the 2016 Notes.

"2016 Notes Trustee" means Citicorp International Limited as trustee for the 2016 Notes.

"2017 Notes" means the RMB1,500 million 10.75% Senior Notes due 2017 issued by the Company pursuant to the 2017 Notes Indenture.

"2017 Notes Indenture" means the indenture dated September 18, 2014, as amended or supplemented from time to time, governing the 2017 Notes.

"2017 Notes Trustee" means Citicorp International Limited as trustee for the 2017 Notes.

"2018 Notes" means the US\$250 million 11.25% Senior Notes due 2018 issued by the Company pursuant to 2018 Notes Indenture.

"2018 Notes Indenture" means the indenture dated January 25, 2013, as amended or supplemented from time to time, governing the 2018 Notes.

"2018 Notes Trustee" means Citicorp International Limited as trustee for the 2018 Notes.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the principal amount of the Note, plus all required remaining scheduled interest payments due on such Note through November 26, 2018 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale or issuance of Capital Stock of a Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided that* “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales or other dispositions of cash and Temporary Cash Investments;
- (3) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “— Limitation on Restricted Payments” covenant;
- (4) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (5) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (6) any transfer, assignment or other disposition deemed to occur in connection with creating granting any Permitted Lien;

- (7) a transaction covered by the covenant under the caption “— Consolidation, Merger and Sale of Assets”; and
- (8) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts of the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange US dollars or Hong Kong dollars into RMB or vice versa; *provided, however*, that the total deposits in such pledged bank accounts shall not at any time be less than 90% or exceed an amount equal to 110% of the aggregate outstanding principal amount of such Indebtedness (or the Dollar Equivalent thereof).

“Board of Directors” means the board of directors of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York or in London or in Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;
- (2) the merger, amalgamation or consolidation of the Company with or into another Person or the merger or amalgamation of another Person with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;
- (3) the Permitted Holders are the beneficial owners within the meaning of Rule 13d-3 under the Exchange Act of less than 40% of the total voting power of the Voting Stock of the Company;



- (4) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (5) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (6) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and a Rating Decline.

“Clearstream” means Clearstream Banking, *société anonyme*, Luxembourg.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes or any Subsidiary Guarantee or any JV Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of each initial Subsidiary Guarantor owned by the Company or a Subsidiary Guarantor.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a comparable maturity to November 26, 2018.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three (or such lesser number as is obtained by the Trustee) Reference Treasury Dealer Quotations for such redemption date.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income,

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided that* (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments,

distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees) and (7) any capitalized interest, *provided that* interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided that* the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
  - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
  - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;

- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“Debt Documents” means, collectively, the 2018 Notes Indenture, the 2016 Notes Indenture, the 2017 Notes Indenture, the Indenture and the documents evidencing any Permitted Pari Passu Secured Indebtedness and any letters appointing any Agent or the Security Agent.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; *provided that* any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Equity Offering” means (i) any bona fide underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any bona fide underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by

a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price, in each case to a person other than a Restricted Subsidiary or Permitted Holder; *provided that* any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank S.A./N.V.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of international standing appointed by the Company.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarter periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided that*, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay such Indebtedness, Disqualified Stock or Preferred Stock;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

*provided that* to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the two full fiscal semi-annual periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means Hong Kong Financial Reporting Standards as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided that* the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided that* (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided that* the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligation or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business; *provided that* such Indebtedness is not reflected on the balance sheet of the Company or any Restricted Subsidiary (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be equal to the net amount payable if such Hedging Obligation terminated at that time due to default by such Person.

“Intercreditor Agreement” has the meaning set forth under “— Security.”

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s, or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody’s or both, as the case may be.

“Investment Property” means any property that is owned and held by any Restricted Subsidiary incorporated under the laws of the PRC for long-term rental yields or for capital appreciation or both, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor together with (x) any of its Restricted Subsidiaries that are providing JV Subsidiary Guarantees and (y) any of its shareholders that are giving JV Subsidiary Guarantees (each, a “JV Subsidiary Group”), an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Group and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Group and its Subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the effective ownership interest of the Company and its Restricted Subsidiaries expressed as a percentage in the JV Subsidiary Group.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “— The Subsidiary Guarantees and JV Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Listing Rules” means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
  - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
  - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
  - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
  - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock or securities convertible or exchangeable into Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying and Transfer Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided that* each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“Officers’ Certificate” means a certificate signed by two Officers.

“Opinion of Counsel” means a written opinion from legal counsel who is acceptable to the Trustee and the Security Agent, as applicable. The counsel may be an employee of or counsel to the Company.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Pari Passu Subsidiary Guarantee” means a guarantee by any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); *provided that* (1) the Company and such Subsidiary Guarantor were permitted to Incur such Indebtedness under the covenant under the caption “— Limitation on Indebtedness and Preferred Stock” and (2) such guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption “— Repurchase of Notes upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under the caption “— Limitation on Asset Sales” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“Permitted Business” means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company and its Restricted Subsidiaries (as described in the Offering Circular) on the Original Issue Date.



“Permitted Holders” means any or all of the following:

- (1) Mr. Hoi Kin Hong (許健康), Mr. Hoi Wa Fong and Ms. Hoi Wa Fan, their spouses or immediate family members or any trust established by any of them for their own benefit or for the benefit of any of their immediate family members;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Persons specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% by Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant under the caption “— Limitation on Asset Sales”;
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “— Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;
- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company’s consolidated balance sheet;
- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business; and

- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of business.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance, and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided that* such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (f) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “— Limitation on Indebtedness and Preferred Stock”; *provided that* such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “— Security-Permitted Pari Passu Secured Indebtedness”;

- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (18) Liens (including extensions and renewals thereof) upon real or personal property acquired after the Original Issue Date; *provided that* (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant under the caption entitled “— Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item, *provided that*, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;
- (19) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens on Investment Properties, or PRC Restricted Subsidiaries that own Investment Properties, securing Indebtedness of the Company or any Restricted Subsidiary incorporated under the laws of the PRC permitted to be Incurred under clause 2(q) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”; and
- (21) Liens Incurred on deposits made to secure Bank Deposit Secured Indebtedness permitted to be Incurred under clause 2(r) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”,

*provided that*, with respect to the Collateral, “Permitted Liens” shall only refer to the Liens described in clauses (1) and (13) of this definition.

“Permitted Pari Passu Secured Indebtedness” has the meaning set forth under “— Security — Permitted Pari Passu Secured Indebtedness.”

“Permitted Subsidiary Indebtedness” means Indebtedness (other than Public Indebtedness) of, and all Preferred Stock issued by, (i) the Company in connection with any Bank Deposit Secured Indebtedness and (ii) the Restricted Subsidiaries; *provided that*, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding the amount of any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (b), (d), (f) or (g) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 15% of the Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided that*, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Public Indebtedness” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“PRC CJV” means Anxi Powerlong Real Estate Co., Ltd., Tianjin Powerlong Jinjun Real Estate Co., Ltd., Wuxi Powerlong Real Estate Development Co., Ltd. and Xiamen Powerlong Design Consulting Company Limited and any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Rating Agencies” means (1) S&P and (2) Moody’s and (3) if S&P or Moody’s or both shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Moody’s or both, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “B-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes, the Company is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under the caption “- Consolidation, Merger and Sale of Assets,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event either of the Notes or the Company is rated by both Moody’s and S&P on the Rating Date as Investment Grade, such rating of the Notes or the Company by either Rating Agency shall be below Investment Grade;

- (b) in the event either of the Notes or the Company is rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, such rating of the Notes or the Company by such Rating Agency shall be below Investment Grade; or
- (c) in the event either of the Notes or the Company is rated below Investment Grade by both Rating Agencies on the Rating Date, such rating of the Notes or the Company by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Replacement Assets” means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business.

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Company in good faith, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Group, a division of The McGraw-Hill Companies, and its successors.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Secured Liabilities” means, collectively, the obligations under the Indenture, the 2018 Notes Indenture, the 2016 Notes Indenture, the 2017 Note Indenture, the Permitted Pari Passu Secured Indebtedness and the Security Documents.

“Security Documents” means, collectively, the pledge agreements, the Intercreditor Agreement and any other agreements or instruments that may evidence or create any security interest in favor of the Security Agent in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes or, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee or, (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided that* Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“Significant Subsidiary” means any Subsidiary that would be a “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of this Indenture, if any of the conditions exceeds 5 percent.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subordinated Shareholder Loan” means any loan to the Company or any Restricted Subsidiary from Permitted Holders which (i) is subordinated in right of payment to the Notes, (ii) by its terms (and by the terms of any security into which it is convertible or for which it is exchangeable) does not mature and is not required to be repaid, pursuant to a sinking fund obligation event of default or otherwise, in whole or in part, on or prior to the date that is one year after the Stated Maturity of the Notes and (iii) does not provide any cash payment of interest.

“Subsidiary” means, with respect to any specified Person:

- (1) any corporation, association or other business entity of which the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders’ agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly: (a) as to more than 50% by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof), or (b) as to 50% by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof), and the Person has, directly or indirectly, the requisite control over such entity to prevent it from incurring any Indebtedness, or taking any other action at any time, in contravention of any of the provisions of the indenture that are applicable to such entity; or
- (2) any partnership or limited liability company of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided that* Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided that* a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China, Hong Kong and Singapore or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China, Hong Kong and Singapore or any agency of any of the foregoing, in each case maturing within one year;
- (2) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area, Hong Kong, Singapore or Australia, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s; and
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Agricultural Bank of China, Bank of China, Bank of Communications, China Merchants Bank, Industrial Commercial Bank of China, China Construction Bank, or Bank of Shanghai, (ii) China Everbright, CITIC Bank, Chinese Mercantile Bank, Pudong Development Bank, Industrial Bank Co., Ltd. or Huaxia Bank, (iii) any other bank or trust company organized under the laws of the PRC whose long-term debt is rated as high or higher than any of those banks listed in clause (i) of this paragraph or (iv) any other bank organized under the laws of the PRC; *provided that*, in the case of clause (iv), such deposits do not exceed US\$10 million (or the Dollar Equivalent thereof) with any single bank or US\$30 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination thereafter.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided that* only with respect to clause (2)(h) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder in each case as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable within 90 days.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and (2) any Subsidiary of an Unrestricted Subsidiary.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided that* Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries.

## TAXATION

### CAYMAN ISLANDS, BRITISH VIRGIN ISLANDS AND HONG KONG TAXATION

The following summary of certain Cayman Islands, British Virgin Islands and Hong Kong tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes.

#### **Cayman Islands**

In the opinion of Maples and Calder, our Cayman Islands counsel, the following is a summary of the material Cayman Islands tax consequences relevant to the purchase, ownership and disposition of the Notes.

Under existing Cayman Islands laws, payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. No stamp duty is payable in respect of the issue of the Notes. The Notes themselves will be stampable if they are executed in or brought into the Cayman Islands.

Pursuant to the Tax Concession Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet of the Cayman Islands; (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and (b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable by the Company on or in respect of the shares, debentures or other obligations of the Company or by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from July 31, 2007. The Cayman Islands is not a party to any double tax treaties which are applicable to payments made by or to the Company.

#### **British Virgin Islands**

There is no income or other tax in the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

#### **Hong Kong**

##### ***Withholding Tax***

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

##### ***Profits Tax***

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.



Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

***Stamp Duty***

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong) of a Note.

## PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated November 19, 2015, as amended or supplemented (the “Purchase Agreement”), among Guotai Junan Securities (Hong Kong) Limited, Merrill Lynch International and Credit Suisse Securities (Europe) Limited (together the “Initial Purchasers”), on the one hand, and us, the Subsidiary Guarantors and the JV Subsidiary Guarantors, on the other hand, the Initial Purchasers have severally agreed to purchase from us, and we have agreed to sell to the Initial Purchasers, the following aggregate principal amounts of the Notes.

<b>Name</b>	<b>Principal Amount</b>
Guotai Junan Securities (Hong Kong) Limited . . . . .	US\$133,333,334
Merrill Lynch International . . . . .	US\$33,333,333
Credit Suisse Securities (Europe) Limited . . . . .	US\$33,333,333
<b>TOTAL</b> . . . . .	<b>US\$200,000,000</b>

The Purchase Agreement provides that the obligation of the Initial Purchasers to pay for and accept delivery of the Notes is several and not joint and is subject to the approval of certain legal matters by their counsel and certain other conditions. The Initial Purchasers are committed to take and pay for all of the Notes if any are taken. After the initial offering, the offering price and other selling terms may be varied from time to time by the Initial Purchasers without notice. The Initial Purchasers may offer and sell the Notes through certain of their affiliates.

We, the Subsidiary Guarantors and the JV Subsidiary Guarantors have agreed to jointly and severally indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchasers may be required to make in respect thereof. In addition, we, the Subsidiary Guarantors and the JV Subsidiary Guarantors have agreed to jointly and severally reimburse the Initial Purchasers for certain expenses incurred in connection with the offering of the Notes.

The Notes are a new issue of securities with no established trading market. Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST. We have been advised by the Initial Purchasers that, in connection with the offering of the Notes, the Initial Purchasers, as the stabilization agents may, to the extent permitted by applicable laws and regulations, engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the stabilization agents may over allot the offering, creating a syndicate short position. In addition, the stabilization agents may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. Any of these activities may stabilize or maintain the market price of the Notes above independent market levels. The stabilization agents are not obligated or required to engage in these activities, and may end any of these activities at any time at their sole discretion without prior notice. No assurance can be given as to the liquidity of, or the trading market for, the Notes. These transactions may be effected in the over-the-counter market or otherwise.

Investors who purchase Notes from the Initial Purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this offering circular.

We have been advised that the Initial Purchasers presently intend to make a market in the Notes, as permitted by applicable laws and regulations. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any such market making may be discontinued at any time without prior notice at the sole discretion of the Initial Purchasers. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes.

In addition, we have agreed with the Initial Purchasers that certain private banks will be paid a commission in connection with the purchase of the Notes by their private bank clients.

The Initial Purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory and investment banking services, for us and our affiliates in the ordinary course of business, for which they received or will receive customary fees and expenses. The Initial Purchasers or their affiliates are, or may in the future be, lenders to us.

Furthermore, we may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

The Initial Purchasers or certain of their affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution. The Initial Purchaser or their respective affiliates may purchase the Notes for its or their own account and may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the Notes. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchasers or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. The Initial Purchasers may also enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Company or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this offering circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

## **SELLING RESTRICTIONS**

The Initial Purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory and investment banking services, for us and our affiliates in the ordinary course of business, for which they received or will receive customary fees and expenses. We may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

## **UNITED STATES**

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may only be offered outside the United States in accordance with Regulation S under the Securities Act.

## **UNITED KINGDOM**

Each of the Initial Purchasers (A) has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (B) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to it.

## **SINGAPORE**

The Initial Purchasers have acknowledged that this offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, each of the Initial Purchasers has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase nor will it offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, nor has it circulated or distributed, nor will it circulate or distribute, this offering circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This offering circular has not been registered as a prospectus with the MAS. Accordingly, this offering circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## **HONG KONG**

No Initial Purchaser (1) has offered or sold or will offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the SFO and any rules made thereunder; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance; or (2) has issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO (Cap. 571 of the Laws of Hong Kong) and any rules made thereunder.

## **JAPAN**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "Financial Instruments and Exchange Law") and, accordingly, no Initial Purchaser has, directly or indirectly, offered or sold or will, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other applicable laws and regulations of Japan.

## **EUROPEAN ECONOMIC AREA**

In relation to each Member State of the European Economic Area which has implemented the EU Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the EU Prospectus Directive is implemented in that Relevant Member State, an offer of Notes which are the subject of the offering contemplated by this offering circular may not be made to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the EU Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the EU Prospectus Directive), as permitted under the EU Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the EU Prospectus Directive,

provided that no such offer of Notes shall require us or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the EU Prospectus Directive.

For the purposes of the above paragraph, the expression “an offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State, the expression “EU Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

Any person making or intending to make any offer of Notes within the EEA should only do so in circumstances in which no obligation arises for us or any of the Initial Purchaser to produce a prospectus for such offer. Neither we nor the Initial Purchaser have authorized, nor do they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the Initial Purchaser which constitute the final offering of Notes contemplated in this offering circular.

## **CAYMAN ISLANDS**

No Initial Purchaser has offered or sold, and will not offer or sell, any Notes in the Cayman Islands.

## **PEOPLE’S REPUBLIC OF CHINA**

No Initial Purchaser has circulated, and will not circulate, the offering circular and no Initial Purchaser has offered or sold, and will not offer or sell, the Notes, in the People’s Republic of China (for such purpose, not including the Hong Kong and Macau Special Administrative Regions or Taiwan).

## **GENERAL**

No action is being taken or is contemplated by us that would permit a public offering of the Notes or possession or distribution of any preliminary offering circular or offering circular or any amendment thereof, any supplement thereto or any other offering material relating to the Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

## TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (collectively, the “Securities”), you will be deemed to have made the following acknowledgements, representations to, and agreements with, us and the Joint Lead Managers:

1. You understand and acknowledge that: the Securities have not been registered under the Securities Act or any other applicable securities laws; the Securities are being offered in transactions that do not require registration under the Securities Act or any other securities laws; the Securities are being offered and sold only outside of the United States, to certain persons in offshore transactions in reliance on Rule 903 or 904 of Regulation S under the Securities Act; and unless so registered, the Securities may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph 4 below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that you are purchasing the Securities in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the Joint Lead Managers nor any person representing us or the Joint Lead Managers have made any representation to you with respect to us or the offering of the Securities, other than the information contained in this offering circular. You represent that you are relying only on this offering circular in making your investment decision with respect to the Securities. You agree that you have had access to such financial and other information concerning us and the Securities as you have deemed necessary in connection with your decision to purchase the Securities including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the Securities for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Securities in violation of the Securities Act.
5. We and the trustee reserve the right to require in connection with any offer, sale or other transfer of the Securities under clause (d) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee and each note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

6. You acknowledge that we, the Joint Lead Managers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Securities is no longer accurate, you will promptly notify us and the Joint Lead Managers. If you are purchasing any Securities as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

## **RATINGS**

The Notes have been rated B- by Standard and Poor's Ratings Services and B3 by Moody's Investors Service, Inc. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes in as much as such ratings do not comment as to market price or suitability for a particular investor. We cannot assure you that the corporate ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

## **LEGAL MATTERS**

Certain legal matters with respect to the Notes will be passed upon for us by Maples and Calder as to matters of Cayman Islands law and British Virgin Islands law, Dorsey & Whitney LLP as to matters of Hong Kong, English, United States federal and New York law and Commerce & Finance Law Offices as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchasers by Skadden, Arps, Slate, Meagher & Flom LLP as to matters of United States federal and New York law and Jingtian & Gongcheng as to matters of PRC law.



## INDEPENDENT AUDITOR

Our consolidated financial information as of and for each years ended December 31, 2012, 2013 and 2014 reproduced in this offering circular has been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as stated in the reports appearing herein and in our annual reports for the years December 31, 2012, 2013 and 2014, respectively. Our unaudited financial information as of and for the six months ended June 30, 2015 reproduced in this offering circular has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by Hong Kong Institute of Certified Public Accountants. The review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable PricewaterhouseCoopers to obtain assurance that it would become aware of all significant matters that might be identified in an audit. Accordingly, PricewaterhouseCoopers does not express an audit opinion with respect to such unaudited financial information. The degree of reliance on such information should be restricted in light of the limited nature of the review procedure applied.

## GENERAL INFORMATION

### CONSENTS

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture governing the Notes and the issue of the Notes have been authorized by a resolution of our board of directors dated November 18, 2015.

### DOCUMENTS AVAILABLE

For so long as any of the Notes are outstanding, copies of the Indenture governing the Notes may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the Paying Agent.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the last two financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the Paying Agent.

### CLEARING SYSTEM AND SETTLEMENT

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

<u>ISIN</u>	<u>Common Code</u>
XS1324204160	132420416

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear and Clearstream.

### LISTING OF THE NOTES

Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST. The listing and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantor or the Notes. The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 of principal amount and integral multiples of US\$1,000 in excess thereof.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

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*Note:*

The consolidated financial statements set out herein have been reproduced from our annual reports for the years ended December 31, 2013 and 2014 and page references are references to pages set forth in such annual reports. The unaudited condensed consolidated interim financial information set out herein has been reproduced from our interim report for the six months ended June 30, 2015 and page references are references to pages set forth in such interim report.

# Independent Auditor's Report



羅兵咸永道

## TO THE SHAREHOLDERS OF POWERLONG REAL ESTATE HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Powerlong Real Estate Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 64 to 150, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### PricewaterhouseCoopers

*Certified Public Accountants*

Hong Kong, 12 March 2014

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*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong*  
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

# Consolidated Balance Sheet

	Note	31 December	
		2013 RMB'000	2012 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	6	1,694,201	1,578,966
Land use rights	7	569,862	543,527
Investment properties	8	19,590,330	18,147,844
Investments accounted for using the equity method	15	1,148,972	1,012,423
Deferred income tax assets	21	203,065	167,094
Derivative financial instruments	20(a)(ii)	11,406	–
Loans		–	270,000
		<b>23,217,836</b>	<b>21,719,854</b>
<b>Current assets</b>			
Properties under development	9	11,371,010	10,789,478
Completed properties held for sale	10	3,521,049	2,649,985
Trade and other receivables	11	1,989,387	1,452,635
Prepayments	12	3,304,061	1,371,281
Prepaid taxes		241,216	195,964
Available-for-sale financial assets	13	30,801	16,462
Financial assets at fair value through profit or loss		14,600	1,750
Restricted cash	16	378,508	557,979
Cash and cash equivalents	17	4,434,449	1,452,217
		<b>25,285,081</b>	<b>18,487,751</b>
<b>Total assets</b>		<b>48,502,917</b>	<b>40,207,605</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital and premium	18	3,035,471	3,035,471
Reserves		14,101,674	13,003,593
		<b>17,137,145</b>	<b>16,039,064</b>
<b>Non-controlling interests</b>		<b>508,988</b>	<b>460,376</b>
<b>Total equity</b>		<b>17,646,133</b>	<b>16,499,440</b>

	Note	31 December	
		2013 RMB'000	2012 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	20	11,854,736	7,731,776
Deferred income tax liabilities	21	3,187,587	3,009,963
		<b>15,042,323</b>	10,741,739
<b>Current liabilities</b>			
Trade and other payables	22	4,869,464	3,910,015
Advances from customers		4,186,307	3,633,826
Current income tax liabilities	23	2,183,267	2,100,335
Borrowings	20	4,575,423	3,322,250
		<b>15,814,461</b>	12,966,426
<b>Total liabilities</b>		<b>30,856,784</b>	23,708,165
<b>Total equity and liabilities</b>		<b>48,502,917</b>	40,207,605
<b>Net current assets</b>		<b>9,470,620</b>	5,521,325
<b>Total assets less current liabilities</b>		<b>32,688,456</b>	27,241,179

The notes on pages 70 to 150 are an integral part of these consolidated financial statements.

**Hoi Kin Hong**  
Director

**Hoi Wa Fong**  
Director

# Balance Sheet

	Note	31 December	
		2013 RMB'000	2012 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	14	6,289,912	6,221,324
Derivative financial instruments	20(a)(ii)	11,406	–
		<b>6,301,318</b>	6,221,324
<b>Current assets</b>			
Amounts due from subsidiaries	14	3,664,512	1,079,521
Financial assets at fair value through profit or loss		13,100	–
Cash and cash equivalents	17	39,193	145,768
		<b>3,716,805</b>	1,225,289
<b>Total assets</b>		<b>10,018,123</b>	7,446,613
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital and premium	18	3,035,471	3,035,471
Reserves	19, 30	234,175	402,483
<b>Total equity</b>		<b>3,269,646</b>	3,437,954
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	20	4,034,527	2,896,838
<b>Current liabilities</b>			
Other payables and accruals	22	42,562	36,135
Amounts due to subsidiaries	14	619,479	832,365
Borrowings	20	2,051,909	243,321
		<b>2,713,950</b>	1,111,821
<b>Total liabilities</b>		<b>6,748,477</b>	4,008,659
<b>Total equity and liabilities</b>		<b>10,018,123</b>	7,446,613
<b>Net current assets</b>		<b>1,002,855</b>	113,468
<b>Total assets less current liabilities</b>		<b>7,304,173</b>	6,334,792

The notes on pages 70 to 150 are an integral part of these consolidated financial statements.

Hoi Kin Hong  
Director

Hoi Wa Fong  
Director





# Consolidated Statement of Changes in Equity

	Attributable to owners of the Company					Non-controlling interests RMB'000	Total equity RMB'000
	Share capital and premium	Other reserves	Retained earnings	Total			
	RMB'000 (Note 18)	RMB'000 (Note 19)	RMB'000	RMB'000			
<b>Year ended 31 December 2013</b>							
Balance at 1 January 2013	3,035,471	488,132	12,515,461	16,039,064	460,376	16,499,440	
Comprehensive income							
– Profit/(loss) for the year	–	–	1,403,536	1,403,536	(3,360)	1,400,176	
– Other comprehensive income for the year	–	344	–	344	–	344	
Total comprehensive income for the year	–	344	1,403,536	1,403,880	(3,360)	1,400,520	
Transactions with owners							
– Dividends (Note 32)	–	–	(320,773)	(320,773)	(11,321)	(332,094)	
– Transfer	–	(4,780)	4,780	–	–	–	
– Changes in ownership interests in subsidiaries without change of control (Note 38)	–	8,481	–	8,481	9,293	17,774	
– Capital contribution from non-controlling interests	–	–	–	–	54,000	54,000	
– Pre-IPO Share Option Scheme	–	(13,589)	18,023	4,434	–	4,434	
– Share Award Scheme	–	2,059	–	2,059	–	2,059	
Total transactions with owners	–	(7,829)	(297,970)	(305,799)	51,972	(253,827)	
Appropriation to statutory reserves (Note 19)	–	31,817	(31,817)	–	–	–	
Balance at 31 December 2013	3,035,471	512,464	13,589,210	17,137,145	508,988	17,646,133	
<b>Year ended 31 December 2012</b>							
Balance at 1 January 2012	3,037,979	400,150	10,562,310	14,000,439	404,891	14,405,330	
Comprehensive income							
– Profit for the year	–	–	2,193,852	2,193,852	19,134	2,212,986	
– Other comprehensive income for the year	–	78,281	–	78,281	4,980	83,261	
Total comprehensive income for the year	–	78,281	2,193,852	2,272,133	24,114	2,296,247	
Transactions with owners							
– Dividends (Note 32)	–	–	(240,580)	(240,580)	–	(240,580)	
– Capital contribution from non-controlling interests	–	–	–	–	31,371	31,371	
– Repurchase of shares of the Company (Note 18 (a))	(2,508)	–	–	(2,508)	–	(2,508)	
– Pre-IPO Share Option Scheme (Note 19)	–	9,580	–	9,580	–	9,580	
Total transactions with owners	(2,508)	9,580	(240,580)	(233,508)	31,371	(202,137)	
Appropriation to statutory reserves (Note 19)	–	121	(121)	–	–	–	
Balance at 31 December 2012	3,035,471	488,132	12,515,461	16,039,064	460,376	16,499,440	

The notes on pages 70 to 150 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

	Note	Year ended 31 December	
		2013 RMB'000	2012 RMB'000
<b>Cash flows from operating activities</b>			
Cash (used in)/generated from operations	33	(381,755)	746,183
PRC corporate income tax paid		(243,407)	(258,552)
PRC land appreciation tax paid		(240,675)	(249,483)
Interest paid		(1,272,896)	(1,111,462)
<b>Cash used in operating activities – net</b>		<b>(2,138,733)</b>	<b>(873,314)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(198,414)	(96,335)
Payments of construction fee of investment properties		(962,695)	(664,312)
Purchase of land use rights		–	(41,655)
Net proceeds from disposals of property and equipment		4,032	9,117
Proceeds from disposal of investment properties		132,206	–
Collection of entrusted loans		270,000	270,000
Payment of entrusted loans		–	(270,000)
Capital contribution to an associate		(37,000)	–
Purchase of available-for-sale financial assets		(13,995)	(16,304)
Interest income from loans to third parties		21,702	19,894
Income distribution from available-for-sale financial assets		3,418	–
Collection of cash advances by related parties		2,022	40,317
Progressive proceeds from disposal of subsidiaries		51,450	61,494
<b>Cash used in investing activities – net</b>		<b>(727,274)</b>	<b>(687,784)</b>
<b>Cash flows from financing activities</b>			
Repurchase of shares of the Company		–	(2,508)
Acquisition of additional interests in a subsidiary		(2,000)	–
Capital contributions from non-controlling interests		54,000	31,371
Proceeds from borrowings		12,347,895	5,622,524
Repayments of borrowings		(6,949,350)	(3,946,414)
Repurchase of senior notes		(11,856)	–
Decrease/(increase) in guarantee deposits		110,869	(91,227)
Dividends paid to owners of the Company		(320,773)	(240,580)
Dividends paid to non-controlling interests		(11,321)	–
Cash advances from related parties		774,951	351,175
Repayments of cash advances to related parties		(139,025)	(122,456)
<b>Cash generated from financing activities – net</b>		<b>5,853,390</b>	<b>1,601,885</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,987,383</b>	<b>40,787</b>
Cash and cash equivalents at beginning of the year	17	1,452,217	1,411,182
Effect of foreign exchange rate changes		(5,151)	248
<b>Cash and cash equivalents at end of the year</b>	<b>17</b>	<b>4,434,449</b>	<b>1,452,217</b>

The notes on pages 70 to 150 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 General Information

Powerlong Real Estate Holdings Limited (the "Company") was incorporated in the Cayman Islands on 18 July 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company's principal activity is investment holding. The Company and its subsidiaries (together the "Group") is principally engaged in property development, property investment, property management, and other property development related services in the People's Republic of China (the "PRC").

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 14 October 2009.

These financial statements have been approved for issue by the board of directors (the "Board") of the Company on 12 March 2014.

## 2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied in all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets (including derivative instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of these consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in Note 4.

#### (a) *New and amended standards adopted by the Group*

Amendment to HKAS 1	Financial statements presentation regarding other comprehensive income
Amendment to HKFRS10, 11 and 12	Transition guidance
Annual improvements project	Annual improvements 2009-2011 cycle
HKFRS 10	Consolidated financial statements
HKAS 27 (revised 2011)	Separate financial statements
HKFRS 11	Joint arrangements
HKAS 28 (revised 2011)	Investments in associates and joint ventures
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
Amendment to HKFRS 7	Financial instruments: Disclosures' on asset and liability offsetting

The adoption of the above amended standards did not have any material impact on the consolidated financial statements except for disclosure.

## 2 Summary of Significant Accounting Policies (continued)

### 2.1 Basis of preparation (continued)

#### (b) *New and amended standards and interpretations not relevant to the Group*

Amendment to HKFRS 1	First time adoption on government loans
Amendment to HKAS 19 (revised 2011)	Employee benefits
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine

- (c) The following new standards and interpretations and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted by the Group:

		<b>Effective for annual periods beginning on or after</b>
Amendments to HKAS32	Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (revised 2011)	Investment entities	1 January 2014
Amendment to HKAS 36	Impairment of assets on recoverable amount disclosures	1 January 2014
Amendment to HKAS 39	Financial Instruments: Recognition and Measurement – Novation of derivatives	1 January 2014
HK(IFRIC) – Int 21	Levies	1 January 2014
Amendment to HKAS 19 (revised 2011)	Defined Benefit Plans: Employee Contributions	1 July 2014
Annual improvements project	Annual improvements 2010-2012 cycle	1 July 2014
Annual improvements project	Annual improvements 2011-2013 cycle	1 July 2014
HKFRS 14	Regulatory deferral accounts	1 January 2016
HKFRS 9	Financial instruments	To be determined

Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted in.

# Notes to the Consolidated Financial Statements

## 2 Summary of Significant Accounting Policies (continued)

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

#### (a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

## 2 Summary of Significant Accounting Policies (continued)

### 2.2 Subsidiaries (continued)

#### 2.2.1 Consolidation (continued)

##### (b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

##### (c) *Disposal of subsidiaries*

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### 2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

# Notes to the Consolidated Financial Statements

## 2 Summary of Significant Accounting Policies (continued)

### 2.3 Associates (continued)

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the statement of comprehensive income.

### 2.4 Joint arrangements

Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

## 2 Summary of Significant Accounting Policies (continued)

### 2.6 Foreign currency translation

#### (a) *Functional and presentation currency*

Items included in the financial statements of each group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Renminbi ("RMB"), which is the Company functional and the Group's presentation currency.

#### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within 'finance income/(costs) – net'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'exchange (losses)/gains – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

#### (c) *Group entities*

The results and financial positions of the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet of the group entities are translated at the closing rate at the date of that balance sheet;
- income and expenses for each consolidated statement of comprehensive income of the group entities are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate. Exchange differences arising are recognised in other comprehensive income.



# Notes to the Consolidated Financial Statements

## 2 Summary of Significant Accounting Policies (continued)

### 2.7 Property, plant and equipment

Property and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20-40 years
Motor vehicles	4-5 years
Furniture, fitting and equipment	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses) – net' in the consolidated statement of comprehensive income.

Assets under construction are stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, amortisation of land use rights during the construction period, borrowing costs on qualifying assets and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

### 2.8 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

## 2 Summary of Significant Accounting Policies (continued)

### 2.8 Investment property (continued)

After initial recognition, investment property is carried at fair value, representing open market value determined at each balance sheet date by external valuer. Property that is being constructed or developed for future use as investment property is classified as investment property under construction. If the fair value cannot be reliably determined, the investment property under construction will be measured at cost until such time as fair value can be determined. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flows projections. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers the following factors, among others:

- The provisions of the construction contract.
- The stage of completion.
- Whether the project/property is standard (typical for the market) or non-standard.
- The level of reliability of cash inflows after completion.
- The development risk specific to the property.
- Past experience with similar constructions.
- Status of construction permits.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land, if any, classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Changes in fair values of investment property are recognised as 'fair value gains on investment properties – net' in the consolidated statement of comprehensive income.

Where the Group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

# Notes to the Consolidated Financial Statements

## 2 Summary of Significant Accounting Policies (continued)

### 2.8 Investment property (continued)

Completed properties held for sale are transferred to investment properties when it is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount shall be recognised in profit or loss.

If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and changed directly to revaluation reserves within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation reserves, with any remaining decrease charged to the profit or loss.

### 2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.10 Properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Development cost of property comprises cost of land use rights, construction costs, borrowing costs on qualifying assets, and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated cost to completion.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

## 2 Summary of Significant Accounting Policies (continued)

### 2.11 Financial assets

#### 2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

(b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The loans and receivables comprise 'trade and other receivables', 'amounts due from related parties', 'restricted cash' and 'cash and cash equivalents' in the balance sheets (Note 2.14 and Note 2.15).

(c) **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(d) **Derivatives**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Derivatives are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

#### 2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

# Notes to the Consolidated Financial Statements

## 2 Summary of Significant Accounting Policies (continued)

### 2.11 Financial assets (continued)

#### 2.11.2 Recognition and measurement (continued)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within 'other gains/(losses) – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income within 'other gains/(losses) – net'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the group's right to receive payments is established.

#### 2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### 2.13 Impairment of financial assets

##### (a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of fair value of an instrument using an observable market price.

## 2 Summary of Significant Accounting Policies (continued)

### 2.13 Impairment of financial assets (continued)

#### (a) *Assets carried at amortised cost (continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

#### (b) *Assets classified as available for sale*

The Group assesses at the balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

### 2.14 Trade and other receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.15 Cash and cash equivalents and restricted cash

Cash and cash equivalent includes cash in hand and at banks and deposits held at call with banks, other short-term highly liquid investment with original maturities of three months or less.

Bank deposits which are restricted to use are included in 'restricted cash'. Restricted cash are excluded from cash and cash equivalents in the consolidated statement of cash flows.

### 2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new share are shown in equity as a deduction, net of tax, from the proceeds.

Where any group entity purchases the Company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to owners of the Company.

# Notes to the Consolidated Financial Statements

## 2 Summary of Significant Accounting Policies (continued)

### 2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.18 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### (a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## 2 Summary of Significant Accounting Policies (continued)

### 2.19 Current and deferred income tax (continued)

#### (b) *Deferred income tax*

##### *Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

##### *Outside basis differences*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

#### (c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.20 Employee benefits

#### (a) *Retirement benefits*

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.



# Notes to the Consolidated Financial Statements

## 2 Summary of Significant Accounting Policies (continued)

### 2.20 Employee benefits (continued)

#### (a) *Retirement benefits (continued)*

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme"), which is a defined contribution retirement scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

#### (b) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

### 2.21 Share-based payments

#### (a) *Equity-settled share-based payment transactions*

The Group operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

## 2 Summary of Significant Accounting Policies (continued)

### 2.21 Share-based payments (continued)

#### (a) *Equity-settled share-based payment transactions (continued)*

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

#### (b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

### 2.22 Provisions and contingent liabilities

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

# Notes to the Consolidated Financial Statements

## 2 Summary of Significant Accounting Policies (continued)

### 2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the sales of properties and services income, stated net of discounts returns and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probably that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, type of transaction and the specifics of each arrangement.

(a) ***Sales of properties***

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet as "advances from customers" under current liabilities.

(b) ***Rental income***

Rental income of property leasing under operating leases is recognised on a straight-line basis over the term of the lease.

(c) ***Property management***

Revenue arising from property management is recognised in the accounting period in which the services are rendered.

(d) ***Hotel operations***

Hotel revenue from room rentals, food and beverage sales and other ancillary services are recognised when the goods are delivered and services are rendered.

(e) ***Retail sales***

Commission income from concessionaire sales is recognised upon sales of goods by the relevant stores.

(f) ***Interest income***

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

(g) ***Dividend income***

Dividend income is recognised when the right to receive payment is established.

## 2 Summary of Significant Accounting Policies (continued)

### 2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

#### *The Group is the lessee*

Payments made under operating leases (net of any incentives received from the lessor), are charged to the profit or loss on a straight-line basis over the period of the lease.

#### *The Group is the lessor*

When assets are leased out under an operating lease, the assets are included in the consolidated balance sheet based on the nature of the assets. Lease income is recognised in the profit or loss on a straight-line basis over the period of the lease.

### 2.25 Dividend distribution

Dividend distribution to the owners of the Company is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the owners of the Company.

### 2.26 Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 Financial Instrument: Recognition and Measurement are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation.

## 3 Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### 3.1 Financial risk factor

#### (a) *Foreign exchange risk*

The Group's businesses are principally conducted in RMB, except that certain cash advance from related parties and borrowings are denominated in foreign currencies. As at 31 December 2013, major non-RMB assets and liabilities are cash and cash equivalents, restricted cash, financial assets at fair value through profit or loss, available-for-sale financial assets, other payables and borrowings dominated in Hong Kong dollar ("HK\$") or US dollar ("US\$"). Fluctuation of the exchange rate of RMB against HK\$ or US\$ could affect the Group's results of operations. The Group has not entered into any forward exchange contract to hedge its exposure to foreign exchange risk.

# Notes to the Consolidated Financial Statements

## 3 Financial Risk Management (continued)

### 3.1 Financial risk factor (continued)

#### (a) Foreign exchange risk (continued)

The carrying amount of the Group's and the Company's foreign currency denominated monetary assets and liabilities at the respective balance sheet dates are as follows:

	Group 31 December		Company 31 December	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Monetary assets				
– HK\$	91,303	150,776	44,653	145,708
– US\$	148,624	5,740	7,639	60
	<b>239,927</b>	156,516	<b>52,292</b>	145,768
Monetary liabilities				
– HK\$	1,225,945	1,290,701	1,148,200	832,681
– US\$	3,385,295	1,544,654	3,367,392	1,544,654
	<b>4,611,240</b>	2,835,355	<b>4,515,592</b>	2,377,335

The following table shows the sensitivity analysis of a 1% change in RMB against the relevant foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end for a 1% change in foreign currency rates. If there is a 1% increase/decrease in RMB against the relevant currencies, the effect in the profit for the year is as follows:

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Increase/(decrease) in profit for the year:				
1% increase in RMB against the relevant currencies				
– HK\$	11,346	11,399	11,035	6,870
– US\$	32,367	15,389	33,598	15,446
	<b>43,713</b>	26,788	<b>44,633</b>	22,316
1% decrease in RMB against the relevant currencies				
– HK\$	(11,346)	(11,399)	(11,035)	(6,870)
– US\$	(32,367)	(15,389)	(33,598)	(15,446)
	<b>(43,713)</b>	(26,788)	<b>(44,633)</b>	(22,316)

### 3 Financial Risk Management (continued)

#### 3.1 Financial risk factor (continued)

##### (b) *Interest rate risk*

Other than deposit held in banks and entrusted loans to third parties, the Group does not have other significant interest bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Borrowings at variable rates expose the Group to cash flows interest rate risk. At 31 December 2013, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, interest charges for the year would increase/decrease by RMB87,312,000 (2012: RMB81,713,000) mainly as a result of larger/smaller interest charges on borrowings at variable rates, most of which have been capitalized in qualified assets.

##### (c) *Credit risk*

The Group has no concentrations on credit risk. Cash transactions are limited to high-credit-quality institutions. The extent of the Group's credit exposure is represented by the aggregate balance of cash at bank and financial institutions and trade and other receivables.

For banks and financial institutions, only those with sound credit ratings are accepted. The receivables from related parties are companies owned by the same ultimate shareholder of the Group of which the possibility of bad debt is low.

For trade receivables arisen from sales of properties, the Group closely monitors repayment progress of the customers in accordance with the terms as specified in the enforceable contracts. The Group has set up policies to ensure follow-up action is taken to recover overdue debts. The Group also regularly reviews the recoverable amount of each individual trade and other receivable to ensure that adequate impairment losses are made for irrecoverable amounts. The Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties for an amount up to 50% to 70% of the total purchase price of the properties. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the property sales proceeds received from the customers and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is minimal. Detailed disclosure of these guarantees is made in Note 34.

For trade receivables arisen from lease of properties, the Group has policies in place to ensure that rental contracts are entered into only with lessees with an appropriate credit history, and the Group monitors the credit quality of receivables on an ongoing basis. Deposits refundable to tenants may be withheld by the Group in part or in whole if receivables due from the tenant are not settled or in case of other breaches of contract.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance, and guarantees provided to third parties. The Group's exposure to credit risk arising from trade and other receivables is set out in Note 11.

# Notes to the Consolidated Financial Statements

## 3 Financial Risk Management (continued)

### 3.1 Financial risk factor (continued)

#### (d) *Liquidity risk*

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing, including short-term and long-term borrowings. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through available sources of financing.

The directors have prepared cash flows projections for the year ending 31 December 2014. Key assumptions used in the preparation of the cash flows projections include:

- (1) Unit selling price in 2014 is not expected to fluctuate significantly from that of 2013. The contracted sales in 2014 are expected to be derived from 26 projects over 18 cities within the PRC.
- (2) The Group could continue to obtain new bank borrowings by way of pledging its land use rights and properties to finance the constructions of properties according to the Group's business development plan. As of 31 December 2013, the Group has undrawn borrowing facilities of RMB213,500,000 (Note 20).
- (3) The Group will closely monitor the cash flows and would adjust the timing of acquiring of new land bank to maintain flexibility towards the uncertainty in the PRC real estate market.

Management seeks to effectively manage future cash flows and reduce exposure to unexpected adverse changes in economic conditions through a number of alternative plans, including adjusting development time table to ensure that the Group has available resources to finance projects of the Group, implementing cost control measures, adopting more flexible approach to pricing for property sales, seeking co-developers to jointly develop certain projects, generating additional cash inflows through disposal of certain investment properties at commercially acceptable prices, and renegotiating payment terms with counterparties in certain contractual land acquisition arrangements. The Group, will base on its assessment of the relevant future costs and benefits, pursue such plans as are appropriate. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.

The table below set out the Group's financial liabilities by relevant maturity grouping at each balance sheet date. Trade and other payables due within 12 months equal their carrying balances, as the impact of discounting is not significant. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

### 3 Financial Risk Management (continued)

#### 3.1 Financial risk factor (continued)

##### (d) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
<b>The Group</b>					
At 31 December 2013					
Borrowings (Note a)	5,895,079	6,463,430	5,129,330	2,803,932	20,291,771
Trade and other payables (Note b)	4,653,628	-	-	-	4,653,628
Guarantees for borrowings of a joint venture	76,329	76,329	1,032,471	-	1,185,129
	<b>10,625,036</b>	<b>6,539,759</b>	<b>6,161,801</b>	<b>2,803,932</b>	<b>26,130,528</b>
At 31 December 2012					
Borrowings (Note a)	4,200,071	4,483,763	3,751,233	632,909	13,067,976
Trade and other payables (Note b)	3,712,769	-	-	-	3,712,769
Guarantees for borrowings of a joint venture	45,262	45,262	658,136	-	748,660
	<b>7,958,102</b>	<b>4,529,025</b>	<b>4,409,369</b>	<b>632,909</b>	<b>17,529,405</b>
<b>The Company</b>					
At 31 December 2013					
Borrowings (Note a)	2,650,683	3,076,154	1,650,974	-	7,377,811
Other payables and accruals	42,562	-	-	-	42,562
Amounts due to subsidiaries	619,479	-	-	-	619,479
Guarantees for borrowings of subsidiaries	916,104	868,424	724,040	-	2,508,568
	<b>4,228,828</b>	<b>3,944,578</b>	<b>2,375,014</b>	<b>-</b>	<b>10,548,420</b>
At 31 December 2012					
Borrowings	530,834	2,045,023	1,528,163	-	4,104,020
Other payables and accruals	36,135	-	-	-	36,135
Amounts due to subsidiaries	490,488	-	-	-	490,488
Guarantees for borrowings of subsidiaries	90,079	136,008	190,019	-	416,106
	<b>1,489,413</b>	<b>2,181,031</b>	<b>1,718,182</b>	<b>-</b>	<b>5,388,626</b>

Notes:

- Interest on borrowings is calculated on borrowings held as at 31 December 2013 and 2012. Floating-rate interest is estimated using the current interest rate as at 31 December 2013 and 2012 respectively.
- It represents payables excluding salaries payable and other taxes payables.

The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments (Note 34).



# Notes to the Consolidated Financial Statements

## 3 Financial Risk Management (continued)

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents (Note 17) and less guarantee deposits for bank borrowings included in restricted cash (Note 16(c)). Total borrowings comprise senior notes (Note 20), bank borrowings (Note 20), other borrowings (Note 20) and borrowings under sale and lease back agreement (Note 20). Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2013 and 2012 are as follows:

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Total borrowings (Note 20)	<b>16,430,159</b>	11,054,026
Less: cash and cash equivalents (Note 17)	<b>(4,434,449)</b>	(1,452,217)
Less: guarantee deposits for bank borrowings (Note 16(c))	<b>(116,933)</b>	(227,802)
Net debt	<b>11,878,777</b>	9,374,007
Total equity	<b>17,646,133</b>	16,499,440
Total capital	<b>29,524,910</b>	25,873,447
Gearing ratio	<b>40.2%</b>	36.2%

The increase in the gearing ratio during 2013 resulted primarily from the additional bank borrowings in 2013 and the senior notes issued in January 2013 and May 2013, respectively.

### 3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

### 3 Financial Risk Management (continued)

#### 3.3 Fair value estimation (continued)

The following table presents the Group's financial assets that are measured at fair value at 31 December 2013 and 2012. See Note 8 for disclosures of the investment properties that are measured at fair value. No financial liabilities are measured at fair value at 31 December 2013 (2012: Nil)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>At 31 December 2013</b>				
Available-for-sale financial assets (Note 13)	–	14,500	16,301	30,801
Financial assets at fair value through profit or loss	14,600	–	–	14,600
Derivative financial instruments (Note 20(a)(ii))	–	11,406	–	11,406
<b>Total assets</b>	<b>14,600</b>	<b>25,906</b>	<b>16,301</b>	<b>56,807</b>
<b>At 31 December 2012</b>				
Available-for-sale financial assets	–	–	16,462	16,462
Financial assets at fair value through profit or loss	1,750	–	–	1,750
<b>Total assets</b>	<b>1,750</b>	<b>–</b>	<b>16,462</b>	<b>18,212</b>

There were no transfers between levels during the year.

(a) *Financial instruments in level 1*

The fair value of the Group's financial assets at fair value through profit or loss, which are mainly listed securities in Hong Kong, are based on their quoted market prices at the balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These financial assets at fair value through profit or loss are included in level 1. The quoted market price used for financial assets held by the Group is the current bid price.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(c) *Financial instruments in level 3*

The fair value of financial instrument included in level 3 is disclosed in Note 13(a).

# Notes to the Consolidated Financial Statements

## 4 Critical Accounting Estimates and Judgements

Estimates and judgements used in preparing these consolidated financial statements are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

### (b) PRC land appreciation taxes

The Group is subject to land appreciation taxes in the PRC. However, the implementation and settlement of these taxes varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its PRC land appreciation taxes calculation and payments with most of local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related taxes. The Group recognised these PRC land appreciation taxes based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the taxation and tax provisions in the years in which such taxes have been finalised with local tax authorities.

### (c) Provisions for properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and properties held for sale according to their net realisable value based on the realisability of these properties. Net realisable value for properties under development is determined by reference to management's estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion (including land costs). Net realisable value for properties held for sale is determined by reference to management's estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses. Based on management's best estimates, there is no material impairment for properties under development and properties held for sale at 31 December 2013.

## 4 Critical Accounting Estimates and Judgements (continued)

### (d) Provision for property and equipment

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of property and equipment have been determined based on value-in-use calculations, taking into account latest market information and past experience. These calculation and valuations require the use of judgements and estimates.

### (e) Fair value of investment properties

The Group assesses the fair value of its completed investment properties and investment properties under construction based on assessments determined by an independent and professional qualified valuer.

The best evidence of fair value of completed investment properties is current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) 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;
- (ii) 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
- (iii) discounted cash flows 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 rents 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.

Investment properties under construction are carried at fair value when is considered to be reliably measurable. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers certain factors, please refer to Note 2.8.

Management, after consulting independent qualified valuer, considers that the fair value of investment properties under construction as at 31 December 2013 can be measured at a reasonable accurate level. Therefore, these investment properties under construction as at 31 December 2013 were measured at fair value.

The fair value gains from completed investment properties and investment properties under construction are disclosed in Note 8.

## 5 Segment Information

The executive directors, as the chief operating decision-makers ("CODM") of the Group review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into four business segments: property development, property investment, property management services and other property development related services. As the CODM considers most of the Group's consolidated revenue and results are attributable to the market in the PRC and the Group's consolidated assets are substantially located in the PRC, no geographical information is presented.

# Notes to the Consolidated Financial Statements

## 5 Segment Information (continued)

Revenue consists of sales of properties, rental income of investment properties, income of property management services and other property development related services. Revenue of the year consists of the following:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Sales of properties	6,243,864	4,975,660
Rental income of investment properties	349,217	320,760
Income of property management services	351,903	187,620
Income of other property development related services	311,954	387,723
	<b>7,256,938</b>	<b>5,871,763</b>

The segment results and other segment items included in the profit for the year ended 31 December 2013 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Gross segment revenue	6,243,864	349,217	392,963	311,954	-	7,297,998
Inter-segment revenue	-	-	(41,060)	-	-	(41,060)
Revenue	6,243,864	349,217	351,903	311,954	-	7,256,938
Segment results	1,275,590	716,817	1,313	(60,644)	(2,633)	1,930,443
Other gains – net						95,370
Share of profit of investments accounted for using the equity method (Note 15)						108,365
Unallocated operating costs						(191,611)
Finance income – net						121,023
Profit before income tax						2,063,590
Income tax expense						(663,414)
Profit for the year						1,400,176
Depreciation (Note 6)	14,344	-	2,171	93,936	-	110,451
Amortisation of land use rights recognised as expenses (Note 7)	-	-	-	13,863	-	13,863
Fair value gains on investment properties – net (Note 8)	-	530,672	-	-	-	530,672

## 5 Segment Information (continued)

The segment results and other segment items included in the profit for the year ended 31 December 2012 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Gross segment revenue	4,975,660	320,760	254,624	387,723	-	5,938,767
Inter-segment revenue	-	-	(67,004)	-	-	(67,004)
Revenue	4,975,660	320,760	187,620	387,723	-	5,871,763
Segment results	1,603,003	1,924,737	(16,653)	(55,529)	(3,290)	3,452,268
Interest income on entrusted loans (Note 26)						19,894
Losses from disposal of subsidiaries (Note 26)						(38,451)
Share of profit of investments accounted for using the equity method (Note 15)						134,079
Unallocated operating costs						(128,103)
Finance costs – net						(29,389)
Profit before income tax						3,410,298
Income tax expense						(1,197,312)
Profit for the year						2,212,986
Depreciation (Note 6)	17,861	-	2,622	92,939	-	113,422
Amortisation of land use rights recognised as expenses (Note 7)	-	-	-	17,160	-	17,160
Fair value gains on investment properties – net (Note 8)	-	1,743,684	-	-	-	1,743,684

# Notes to the Consolidated Financial Statements

## 5 Segment Information (continued)

Segment assets and liabilities, interests in a joint venture and an associate as at 31 December 2013 and capital expenditure for the year then ended are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	26,338,637	20,587,250	398,482	2,990,797	(2,881,188)	47,433,978
Other assets						1,068,939
Total assets						48,502,917
Segment liabilities	7,815,385	389,283	366,803	2,092,924	(2,881,188)	7,783,207
Other liabilities						23,073,577
Total liabilities						30,856,784
Capital expenditure	25,539	983,888	52,982	191,395	-	1,253,804
Interests in a joint venture	1,112,150	-	-	-	-	1,112,150
Interests in an associate	36,822	-	-	-	-	36,822

Segment assets and liabilities and interests in a joint venture as at 31 December 2012 and capital expenditure for the year then ended are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	21,534,492	18,087,065	232,470	2,325,537	(2,684,709)	39,494,855
Other assets						712,750
Total assets						40,207,605
Segment liabilities	5,676,278	1,424,920	217,595	2,307,631	(2,684,709)	6,941,715
Other liabilities						16,766,450
Total liabilities						23,708,165
Capital expenditure	4,118	1,166,402	2,027	195,795	-	1,368,342
Interests in a joint venture	1,012,423	-	-	-	-	1,012,423

## 5 Segment Information (continued)

Segment assets are reconciled to total assets as follows:

	31 December	
	2013 RMB'000	2012 RMB'000
Segment assets	<b>47,433,978</b>	39,494,855
Other assets		
– Prepaid taxes	<b>241,216</b>	195,964
– Deferred income tax assets	<b>203,065</b>	167,094
– Unallocated cash and cash equivalents and restricted cash	<b>570,208</b>	297,944
– Other receivables from related parties (Note 36(d))	<b>23,347</b>	25,369
– Unallocated property and equipment	<b>8,049</b>	9,232
– Other corporate assets	<b>23,054</b>	17,147
Total assets	<b>48,502,917</b>	40,207,605

Segment liabilities are reconciled to total liabilities as follows:

	31 December	
	2013 RMB'000	2012 RMB'000
Segment liabilities	<b>7,783,207</b>	6,941,715
Other liabilities		
– Current income tax liabilities	<b>2,183,267</b>	2,100,335
– Deferred income tax liabilities	<b>3,187,587</b>	3,009,963
– Current borrowings	<b>4,575,423</b>	3,322,250
– Non-current borrowings	<b>11,854,736</b>	7,731,776
– Other payables to related parties (Note 36(d))	<b>1,167,351</b>	531,425
– Other corporate liabilities	<b>105,213</b>	70,701
Total liabilities	<b>30,856,784</b>	23,708,165

Sales between segments are carried out in accordance with the terms of the underlying agreements. The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated statement of comprehensive income.

The amounts provided to the CODM with respect to total assets and liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment.

Segment assets consist primarily of property and equipment, land use rights, investment properties, properties under development, completed properties held for sale, receivables and cash and cash equivalents.

Segment liabilities consist of operating liabilities.

Capital expenditure comprises additions to property and equipment (Note 6), land use rights (Note 7) and investment properties (Note 8).



# Notes to the Consolidated Financial Statements

## 6 Property and Equipment – Group

	Assets under construction RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Furniture, fitting and equipment RMB'000	Total RMB'000
<b>Year ended 31 December 2013</b>					
Opening net book amount	138,502	1,299,575	24,470	116,419	1,578,966
Additions	176,615	29,184	9,075	14,844	229,718
Transfer	(162,136)	162,136	–	–	–
Disposals	–	(1,720)	(621)	(1,691)	(4,032)
Depreciation	–	(67,264)	(10,115)	(33,072)	(110,451)
Closing net book amount	152,981	1,421,911	22,809	96,500	1,694,201
<b>At 31 December 2013</b>					
Cost	152,981	1,595,193	63,513	202,690	2,014,377
Accumulated depreciation	–	(173,282)	(40,704)	(106,190)	(320,176)
Net book amount	152,981	1,421,911	22,809	96,500	1,694,201
<b>Year ended 31 December 2012</b>					
Opening net book amount	86,276	1,389,638	35,542	164,938	1,676,394
Additions	121,833	–	2,747	4,073	128,653
Transfer from investment properties (Note 8)	–	84,741	–	–	84,741
Transfer to investment properties (Note 8)	–	(161,631)	–	–	(161,631)
Transfer	(59,692)	59,692	–	–	–
Disposals	–	(2,322)	(4,904)	(1,891)	(9,117)
Depreciation	–	(70,543)	(8,915)	(33,964)	(113,422)
Disposal of a subsidiary	(9,915)	–	–	(16,737)	(26,652)
Closing net book amount	138,502	1,299,575	24,470	116,419	1,578,966
<b>At 31 December 2012</b>					
Cost	138,502	1,406,862	55,385	191,887	1,792,636
Accumulated depreciation	–	(107,287)	(30,915)	(75,468)	(213,670)
Net book amount	138,502	1,299,575	24,470	116,419	1,578,966

## 6 Property and Equipment – Group (continued)

Depreciation charges were included in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Cost of sales	80,913	88,320
Selling and marketing costs	1,689	1,792
Administrative expenses	27,849	23,310
	<b>110,451</b>	113,422

As at 31 December 2013, properties and equipment with net book amounts totalling RMB820,180,000 (2012: RMB1,075,211,000), were pledged as collateral for the Group's borrowings (Note 20).

Certain equipment of the Group with the net book amount of RMB81,808,000 (31 December 2012: RMB86,537,000) where the Group was a lessee were held under non-cancellable finance lease agreement. The lease terms are 3 years (Note 20).

Borrowing costs of RMB13,184,000 have been capitalised in assets under construction for the year ended 31 December 2013 (2012: RMB33,570,000).

The capitalisation rate of borrowings for the year ended 31 December 2013 was 9.25% (2012: 10.22%).

## 7 Land Use Rights – Group

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Opening net book amount	543,527	648,722
Additions	40,198	73,287
Transfer from investment properties	–	140,452
Transfer to investment properties	–	(98,884)
Disposal of subsidiaries	–	(202,890)
Amortisation charges	(13,863)	(17,160)
Ending net book amount	<b>569,862</b>	543,527

# Notes to the Consolidated Financial Statements

## 7 Land Use Rights – Group (continued)

	31 December	
	2013 RMB'000	2012 RMB'000
Land use rights are outside Hong Kong, held on leases of:		
Between 10 to 50 years	<b>569,862</b>	543,527

Land use rights comprise cost of acquiring rights to use certain land, which are all located in the PRC, mainly for hotel buildings and other self-use buildings over fixed periods.

As at 31 December 2013, land use rights of RMB164,599,000 (2012: RMB104,426,000) were pledged as collateral for the Group's borrowings (Note 20).

## 8 Investment Properties – Group

	Completed investment properties RMB'000	Investment properties under construction RMB'000	Total RMB'000
<b>Year ended 31 December 2013</b>			
At 1 January 2013	16,196,318	1,951,526	18,147,844
Additions	191,960	791,928	983,888
Transfers	1,607,930	(1,607,930)	–
Fair value gains – net	509,566	21,106	530,672
Disposals	(72,074)	–	(72,074)
At 31 December 2013	<b>18,433,700</b>	<b>1,156,630</b>	<b>19,590,330</b>
Total gains or losses for the year included in profit or loss, under 'fair value gains on investment properties – net'	<b>509,566</b>	<b>21,106</b>	<b>530,672</b>
Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	<b>505,558</b>	<b>21,106</b>	<b>526,664</b>

## 8 Investment Properties – Group (continued)

	Completed investment properties RMB'000	Investment properties under construction RMB'000	Total RMB'000
<b>Year ended 31 December 2012</b>			
At 1 January 2012	14,017,695	1,007,664	15,025,359
Additions through the settlement of prepayments for acquisition of properties	582,000	–	582,000
Subsequent expenditure on investment properties	125,160	459,242	584,402
Transfers from property held for sale	104,237	–	104,237
Transfers from property and equipment and land use rights – net	108,162	–	108,162
Transfers	589,779	(589,779)	–
Fair value gains – net	669,285	1,074,399	1,743,684
At 31 December 2012	16,196,318	1,951,526	18,147,844

- (a) The following amounts have been recognised in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Rental income (Note 5)	349,217	320,760
Direct operating expenses arising from investment properties that generate rental income	(132,259)	(89,525)
Direct operating expenses arising from investment properties that do not generate rental income	(20,972)	(67,074)

Investment properties as at 31 December 2013 are held in the PRC on leases between 10 to 50 years (2012: same).

Borrowing costs of RMB96,816,000 have been capitalised in investment properties under construction for the year ended 31 December 2013 (2012: RMB80,290,000). The capitalisation rate of borrowings for the year ended 31 December 2013 was 9.25% (2012: 10.22%).

As at 31 December 2013, investment properties of RMB16,753,735,000 (31 December 2012: RMB10,532,320,000) were pledged as collateral for the Group's borrowings (Note 20).

Certain equipment affiliated with the investment properties of the Group of RMB132,538,000 (31 December 2012: RMB132,538,000) where the Group is a lessee under non-cancellable sale and lease back agreement. The lease terms are 3 years (Note 20).

Investment properties are shopping malls mainly located in Henan Province, Fujian Province, Shandong Province, Jiangsu Province, Anhui Province, Shanghai and Chongqing. The fair value of the investment properties are expected to be realised through rental income.

# Notes to the Consolidated Financial Statements

## 8 Investment Properties – Group (continued)

### (i) Fair value hierarchy

An independent valuation of the Group's completed investment properties and certain investment properties under construction was performed by the valuer, Savills Valuation and Professional Services Limited, to determine the fair value of the investment properties as at 31 December 2013. The revaluation gains or losses are included in 'Fair value gains on investment properties – net' in the statement of comprehensive income.

As at 31 December 2013, as certain of significant inputs used in the determination of fair value of investment properties are derivative from unobservable market data, the fair value of all investment properties of the Group are included in level 3 of the fair value measurement hierarchy (Note 2.8).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. No transfers in or out of fair value hierarchy levels during the year.

### (ii) Valuation processes of the Group

The Group's investment properties were valued at 31 December 2013 by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use.

The Group's finance department includes a team that review the valuations performed by the independent valuer for financial reporting purposes. This team reports to the senior management of the Group. Discussions of valuation processes and results are held between the management and valuer at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2013, the fair values of the properties have been determined by Savills Valuation and Professional Services Limited.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

### (iii) Valuation techniques

The direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

Fair values of completed properties are generally derived using the term and reversion method. This method is based on the tenancy agreements as at the respective valuation dates. The rental income derived within the tenancy agreements are discounted by adopting term yields and the potential reversionary income are discounted by adopting appropriate reversion yields for the period beyond the rental period in the tenancy agreements. Potential reversionary income and the reversion yields are derived from analysis prevailing market rents and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

## 8 Investment Properties – Group (continued)

### (iii) Valuation techniques (continued)

Fair values of the investment properties under development are generally derived using the residual method. This valuation method is essentially a means of valuing the land by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completed as at the date of valuation.

The Group has also used the sale comparison approach by making reference to the sales transactions or asking price evidences of comparable properties as available in the market to cross check the valuation result.

There were no changes to the valuation techniques during the year. Information about fair value measurements using significant unobservable inputs (level 3)

	Fair value at 31 December 2013 RMB'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	18,433,700	Term and reversionary method	Term yields	3.5%–7.5%	The higher the term yields, the lower the fair value
			Reversion yields	5.5%–8%	The higher the reversion yields, the lower the fair value
			Market rents(RMB/ square meter ("sq.m")/ month)	79–346	The higher the market rents, the higher the fair value
Investment properties under construction	1,156,630	Residual method	Market rents(RMB/ sq.m/month)	90–140	The higher the market rents, the higher the fair value
			Market yields	5.5%–6.5%	The higher the market yields, the lower the fair value
			Budgeted construction costs to incur (RMB/sq.m)	2,559–3,071	The higher the budgeted construction costs to incurred, the lower the fair value
			Developer's profit (%)	10%–15%	The higher the developer's profit, the lower the fair value

There are inter-relationships between unobservable inputs. For investment property under construction, increases in construction costs that enhance the property's features may result in an increase of future rental values. An increase in future rental income may be linked with higher costs. If the remaining lease term increases, the yield may decrease.

# Notes to the Consolidated Financial Statements

## 9 Properties under Development – Group

	31 December	
	2013 RMB'000	2012 RMB'000
Properties under development include:		
– Construction costs and capitalised expenditures	2,863,981	2,162,668
– Interests capitalised	2,097,592	1,478,520
– Land use rights	6,409,437	7,148,290
	<b>11,371,010</b>	10,789,478
Land use rights:		
Outside Hong Kong, held on leases of:		
– Over 50 years	3,622,157	4,263,070
– Between 10 to 50 years	2,787,280	2,885,220
	<b>6,409,437</b>	7,148,290

The properties under development are all located in the PRC and expected to be completed within an operating cycle, most of which are expected to be completed within 12 months.

As at 31 December 2013, properties under development of approximately RMB4,493,367,000 (2012: RMB5,507,786,000) were pledged as collateral for the Group's borrowings (Note 20).

The capitalisation rate of borrowings for the year ended 31 December 2013 was 9.25% (2012: 10.22%).

## 10 Completed Properties Held for Sale – Group

The completed properties held for sale are all located in the PRC.

As at 31 December 2013, completed properties held for sale of approximately RMB1,132,059,000 (2012: RMB1,458,928,000) were pledged as collateral for the Group's borrowings (Note 20).

## 11 Trade and Other Receivables – Group

	31 December	
	2013 RMB'000	2012 RMB'000
Trade receivables (Note (a))	1,113,914	987,888
– Related parties (Note 36(d))	53,116	78,082
– Third parties	1,060,798	909,806
Less: provision for impairment of trade receivables (Note (a))	(11,735)	(19,192)
Trade receivables – net	1,102,179	968,696
Deposits for acquisition of land use rights	376,518	15,000
Other receivables from:	510,690	468,939
– Related parties (Note 36(d))	23,347	25,369
– Third parties	487,343	443,570
	<b>1,989,387</b>	1,452,635

## 11 Trade and Other Receivables – Group (continued)

- (a) Trade receivables are mainly derived from sales of properties and rental income. Sales proceeds and rental fee are paid in accordance with the terms of the related sales and purchase agreements and rental contracts. As at 31 December 2013 and 2012, the ageing analysis of trade receivables of the Group based on billing date is as follows:

	31 December	
	2013 RMB'000	2012 RMB'000
Not due	342,009	337,271
Within 90 days	377,421	407,688
Over 90 days	394,484	242,929
	<b>1,113,914</b>	<b>987,888</b>

As at 31 December 2013, trade receivables of RMB70,823,000 (2012: RMB73,904,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty. The overdue amounts can be recovered as the Group is entitled to take over legal title and possession of underlying properties for re-sales.

	31 December	
	2013 RMB'000	2012 RMB'000
Over 90 days	70,823	73,904

As of 31 December 2013, trade receivables of RMB15,531,000 were impaired (2012: RMB55,190,000) and provision of RMB11,735,000 were provided (2012: RMB19,192,000). The individually impaired receivables mainly relate to certain lessees of the Group's investment properties, which are in unexpectedly difficult economic situations.

Movements on the provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
At 1 January	19,192	–
Provision for receivables impairment	2,694	19,192
Receivables written off during the year as uncollectible	(10,151)	–
At 31 December	<b>11,735</b>	<b>19,192</b>

- (b) As at 31 December 2013 and 2012, the fair value of trade and other receivables approximated their carrying amounts.
- (c) Trade and other receivables are interest free. The Group's trade and other receivables are denominated in RMB. Except for those disclosed in Note 11 (a), no material trade and other receivables were impaired or past due as at 31 December 2013 and 2012.
- (d) The maximum exposure to credit risk at the reporting date was the carrying value of each class of receivables after deducting any impairment allowance, and guarantees provided to third parties.



# Notes to the Consolidated Financial Statements

## 12 Prepayments – Group

	31 December	
	2013 RMB'000	2012 RMB'000
Acquisition of land use rights (Note (a))	3,249,109	1,352,736
Construction materials – third parties	54,952	18,545
	<b>3,304,061</b>	<b>1,371,281</b>

- (a) Payments on land acquisitions will be made in accordance with the payment terms as stipulated in the land acquisition contracts. The relevant land use rights certificates have not been obtained as at 31 December 2013. The land acquisition costs which are contracted but not provided for are included in commitments (Note 35(a)).

## 13 Available-For-Sale Financial Assets – Group

Available-for-sale financial assets include the following:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Opening amount as at 1 January	16,462	–
Additions	13,995	16,304
Revaluation gains – net	344	158
Closing amount as at 31 December	<b>30,801</b>	<b>16,462</b>

Available-for-sale financial assets include the following:

	31 December	
	2013 RMB'000	2012 RMB'000
Unlisted securities:		
– Unlisted private trust fund denominated in HK\$ (Note (a))	16,301	16,462
– Wealth management product (“WMP”) denominated in RMB (Note (b))	14,500	–
	<b>30,801</b>	<b>16,462</b>

- (a) The fair value of unlisted private trust fund is based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the private trust fund.
- (b) The WMP is measured at fair value which is derived from quoted prices of active market and maximising the use of observable inputs where available.

The maximum exposure to credit risk at the reporting date is the carrying value of the unlisted private trust fund and WMP classified as available-for-sale financial assets. There are no commitment and contingent liabilities relating to the Group’s interests in the available-for-sale financial assets.

These financial assets are not past due or impaired as of 31 December 2013 and 2012.

## 14 Interests in and Amounts due from/(to) Subsidiaries – Company

## (a) Interests in and amounts due from/(to) subsidiaries

	31 December	
	2013 RMB'000	2012 RMB'000
Non-current portions		
Investments at cost – unlisted shares	410,005	410,005
Deemed capital contributions arising from share-based compensation	69,730	63,237
Amounts due from subsidiaries	5,810,177	5,748,082
	<b>6,289,912</b>	<b>6,221,324</b>
Current portions		
Amounts due from subsidiaries	3,664,512	1,079,521
Amounts due to subsidiaries	(619,479)	(832,365)
	<b>3,045,033</b>	<b>247,156</b>

Investments in Group undertakings are recorded at cost, which is the fair value of the consideration paid.

The deemed capital contribution relating to share based payment relates to certain shares and share options granted by the Company to employees of subsidiary undertakings in the Group. Refer to Note 19 for further details on the Group's share-based compensation plan.

The amounts due from subsidiaries included in non-current portions are unsecured, interest-free and the Company does not expect repayment in the foreseeable future.

The amounts due from/(to) subsidiaries included under current portions are unsecured, interest-free and repayable on demand.

## (b) The non-controlling interests in respect of each subsidiary are not material to the Group.

# Notes to the Consolidated Financial Statements

## 15 Investments Accounted for Using the Equity Method

The amounts recognised in the balance sheet are as follows:

	31 December	
	2013 RMB'000	2012 RMB'000
Non-current portion		
Associate	36,822	–
Joint venture	1,112,150	1,012,423
	<b>1,148,972</b>	<b>1,012,423</b>
Current portion (Note 36(d))		
Amounts due to an associate	42,000	–
Amounts due to a joint venture	1,014,706	239,755
	<b>1,056,706</b>	<b>239,755</b>

Amounts due to an associate and a joint venture are unsecured, interest-free and repayable on demand.

The amounts recognised in the statement of comprehensive income are as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Associate (Note (a))	(218)	–
Joint venture (Note (b))	108,583	134,079
	<b>108,365</b>	<b>134,079</b>

(a) The associate of the Group as at 31 December 2013, which, in the opinion of the directors, is not material to the Group.

(b) Joint venture

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
At 1 January	1,012,423	887,131
Share of profit	108,583	134,079
Elimination of unrealised profits	(8,856)	(8,787)
At 31 December	<b>1,112,150</b>	<b>1,012,423</b>

## 15 Investments Accounted for Using the Equity Method (continued)

(b) Joint venture (continued)

(i) *Nature of investment in the joint venture 2013 and 2012*

Name of entity	Place of business/ country of incorporation	% of ownership interest	Measurement method
Tianjin Powerlong Jinjun Real Estate Co., Ltd. ("Tianjin Powerlong") 天津寶龍金駿房地產開發有限責任公司	PRC	65	Equity

The joint venture listed above is a private company and there is no quoted market price available for its shares and has share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also its principal place of business.

(ii) *Commitments and contingent liabilities in respect of the joint venture*

	31 December	
	2013 RMB'000	2012 RMB'000
Proportionate interest of commitments	<b>368,776</b>	336,536
Proportionate interest of financial guarantee contracts	<b>38,230</b>	13,273

There are no other contingent liabilities relating to the Group's interest in the joint venture, and no other contingent liabilities of the joint venture itself.

# Notes to the Consolidated Financial Statements

## 15 Investments Accounted for Using the Equity Method (continued)

(b) Joint venture (continued)

### (iii) Summarised financial information for the joint venture

Set out below is the summarised financial information for the joint venture which is accounted for using the equity method.

Summarised balance sheet	31 December	
	2013 RMB'000	2012 RMB'000
<b>Current</b>		
Cash and cash equivalents	84,956	73,820
Other current assets excluding cash	2,914,355	1,656,082
Total current assets	2,999,311	1,729,902
Financial liabilities excluding trade payables	–	–
Other current liabilities including trade payables	(1,273,034)	(385,309)
Total current liabilities	(1,273,034)	(385,309)
<b>Non-current</b>		
Total non-current assets	1,081,521	949,037
Financial liabilities	(993,880)	(589,360)
Other liabilities	(154,022)	(148,194)
Total non-current liabilities	(1,147,902)	(737,554)
<b>Net assets</b>	<b>1,659,896</b>	<b>1,556,076</b>
<b>Summarised statement of comprehensive income</b>	<b>Year ended 31 December</b>	
	<b>2013 RMB'000</b>	<b>2012 RMB'000</b>
Revenue	313,870	–
Cost of goods sold	(222,164)	–
Fair value gains from investment properties	102,276	185,918
Interest income	1,082	570
Interest expense	(40)	(24)
Profit from continuing operations	175,838	163,529
Income tax expense	(72,018)	(40,882)
Post-tax profit from continuing operations	103,820	122,647
Other comprehensive income	–	–
Total comprehensive income	103,820	122,647
Dividends received from the joint venture	–	–

There are no material differences in accounting policies between the Group and the joint venture.

## 15 Investments Accounted for Using the Equity Method (continued)

(b) Joint venture (continued)

(iv) *Reconciliation of summarised financial information*

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in the joint venture.

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Opening net assets 1 January	1,556,076	1,576,623
Profit for the year	103,820	122,647
Other comprehensive income	–	–
Distribution to the joint venture partner of the Group	–	(143,194)
Closing net assets	1,659,896	1,556,076
Less: Joint venture partner interests	(538,890)	(534,866)
Elimination of unrealised profits	(8,856)	(8,787)
Interest in joint venture (carrying value)	1,112,150	1,012,423

## 16 Restricted Cash – Group

	31 December	
	2013 RMB'000	2012 RMB'000
Guarantee deposit for construction projects (Note (a))	99,284	85,934
Guarantee deposit for bank acceptance notes (Note (b))	152,215	227,827
Guarantee deposits for bank borrowings (Note (c))	116,933	227,802
Others	10,076	16,416
	378,508	557,979
Denominated in:		
– RMB	371,461	553,588
– HK\$	7,047	4,391
	378,508	557,979

# Notes to the Consolidated Financial Statements

## 16 Restricted Cash – Group (continued)

- (a) In accordance with relevant documents issued by local State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place certain amount of presale proceeds of properties at designated bank accounts as guarantee deposits for constructions of related properties. The deposits can only be used for purchases of construction materials and payments of construction fee of the relevant property projects when approval from the local State-Owned Land and Resource Bureau is obtained. The remaining balances of the deposits will be released after completion of related pre-sold properties or issuance of the real estate ownership certificate of the properties, whichever is the earlier.
- (b) As at 31 December 2013, the Group placed cash deposits of approximately RMB152,215,000 (2012: RMB227,827,000) with designated banks as guarantee for the issuance of bank acceptance notes.
- (c) As at 31 December 2013, the Group has placed cash deposits of approximately RMB116,933,000 (2012: RMB227,802,000) with designated banks as security for bank borrowings.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

## 17 Cash and Cash Equivalent

	Group 31 December		Company 31 December	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Cash at bank and in hand:				
– Denominated in RMB	<b>4,250,744</b>	1,300,092	–	–
– Denominated in HK\$	<b>35,081</b>	146,385	<b>31,554</b>	145,708
– Denominated in US\$	<b>148,624</b>	5,740	<b>7,639</b>	60
	<b>4,434,449</b>	1,452,217	<b>39,193</b>	145,768

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

## 18 Share Capital and Premium – Group and Company

	Number of ordinary shares	Nominal value of ordinary shares HK\$	Equivalent nominal value of ordinary share RMB'000	Share premium RMB'000	Shares held for Share Award Scheme RMB'000	Total RMB'000
<b>Authorised:</b>						
As at 1 January 2012, 31 December 2012 and 31 December 2013	30,000,000,000	300,000,000				
<b>Issued and fully paid:</b>						
As at 1 January 2013 and 31 December 2013	4,048,013,000	40,480,130	35,936	3,084,256	(84,721)	3,035,471
As at 1 January 2012	4,051,079,000	40,510,790	35,961	3,086,739	(84,721)	3,037,979
Repurchase of shares of the Company	(3,066,000)	(30,660)	(25)	(2,483)	–	(2,508)
As at 31 December 2012	4,048,013,000	40,480,130	35,936	3,084,256	(84,721)	3,035,471

## (a) Shares held for Share Award Scheme

On 2 December 2010 (the "Adoption Date"), the Board approved and adopted a share award scheme in which a number of selected employees of the Group are entitled to participate (the "Share Award Scheme"). The Group has set up a trust (the "Share Award Scheme Trust") for the purpose of administering the Share Award Scheme. Under the sole discretion of the Board, the Share Award Scheme Trust will acquire the Company's shares from the Stock Exchange, with a maximum number determined by the Board, and hold the shares granted to the employees but not vested for the employees until they are vested. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of six years commencing on the Adoption Date.

Employees are not entitled to dividends on any awarded shares that are not yet transferred to them.

The Board will implement the Share Award Scheme in accordance with the terms of the Share Award Scheme rules including providing necessary funds to the Share Award Scheme Trust for the purchase of shares up to 2% of the issued share capital of the Company as of the Adoption Date.

As at 31 December 2013, the Share Award Scheme Trust holds 38,353,000 shares of the Company (2012: same) (Note 19(d)).

During the year ended 31 December 2013, the Share Award Scheme Trust received cash dividend amounting to RMB3,068,000 (2012: RMB2,301,000) which will be used to pay for the fees of the trust or acquire the Company's own ordinary shares (Note 32).



# Notes to the Consolidated Financial Statements

## 19 Other Reserves

	Group					Company	
	Merger reserve	Statutory reserves	Share-based compensation reserve	Revaluation reserves	Transaction with non-controlling interests	Total	Share-based compensation reserve
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note (a))	(Note (b))	(Note(c) and Note (d))	(Note(e))			(Note(c) and Note (d))
Balance at 1 January 2013	337,203	9,411	63,237	78,281	-	488,132	63,237
Revaluation – net of tax	-	-	-	344	-	344	-
Transfer	-	(4,780)	-	-	-	(4,780)	-
Acquisition of additional interest of a subsidiary	-	-	-	-	8,481	8,481	-
Pre-IPO Share Option Scheme (Note (c))	-	-	(13,589)	-	-	(13,589)	(13,589)
Share Award Scheme (Note (d))	-	-	2,059	-	-	2,059	2,059
Appropriation to statutory reserves	-	31,817	-	-	-	31,817	-
<b>Balance at 31 December 2013</b>	<b>337,203</b>	<b>36,448</b>	<b>51,707</b>	<b>78,625</b>	<b>8,481</b>	<b>512,464</b>	<b>51,707</b>
Balance at 1 January 2012	337,203	9,290	53,657	-	-	400,150	53,657
Revaluation – net of tax	-	-	-	78,281	-	78,281	-
Pre-IPO Share Option Scheme (Note (c))	-	-	9,580	-	-	9,580	9,580
Appropriation to statutory reserves	-	121	-	-	-	121	-
<b>Balance at 31 December 2012</b>	<b>337,203</b>	<b>9,411</b>	<b>63,237</b>	<b>78,281</b>	<b>-</b>	<b>488,132</b>	<b>63,237</b>

(a) Merger reserve

The merger reserve represents the aggregate nominal value of the share capital/paid-in capital of the subsidiaries acquired by the Company from the controlling shareholders less the consideration paid to the controlling shareholders pursuant to the reorganisation undertaken in 2007 for preparation of listing of the Company on the Stock Exchange.

(b) Statutory reserves

Pursuant to the relevant laws and regulations in the PRC and the provision of the articles of association of the Group's subsidiaries, the Group's subsidiaries which are registered in the PRC shall appropriate certain percentage of profit after tax (after offsetting any accumulated losses brought forward from prior years) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds. Depending on the natures, the reserve funds can be used to set off accumulated losses of the subsidiaries or distribute to owners in form of bonus issue.

For the year ended 31 December 2013, the statutory reserve of a subsidiary amounting to RMB4,780,000 was released to retained earnings when the subsidiary had been wound up.

(c) Pre-IPO Share Option Scheme

On 16 September 2009, the Company granted share options to the certain employees of the Group under a share option scheme (the "Pre-IPO Share Option Scheme"), under which the option holders are entitled to acquire aggregate of 40,000,000 shares of the Company at 10% discount to the offer price of HK\$2.75 per share upon the listing date.

## 19 Other Reserves (continued)

## (c) Pre-IPO Share Option Scheme (continued)

Particulars of share options as at 31 December 2013 and 2012 are as follows:

Vesting period	Expiry dates	Exercise price	Number of outstanding shares as at 31 December	
			2013	2012
2 years from 16 September 2009	15 September 2013	HK\$2.475	–	5,544,000
3 years from 16 September 2009	15 September 2014	HK\$2.475	5,156,000	5,544,000
4 years from 16 September 2009	15 September 2015	HK\$2.475	5,156,000	5,544,000
5 years from 16 September 2009	15 September 2016	HK\$2.475	5,156,000	5,544,000
			<b>15,468,000</b>	<b>22,176,000</b>

Movements in the number of share options outstanding are as follows:

	Year ended 31 December	
	2013	2012
At 1 January	22,176,000	31,660,000
Forfeited	(1,224,000)	(3,940,000)
Expired	(5,484,000)	(5,544,000)
At 31 December	<b>15,468,000</b>	<b>22,176,000</b>

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of options granted is HK\$2.16 per option, which was determined using the Binomial Model by an independent valuer.

The total expense recognised for employee services received in respect of the Pre-IPO Share Option Scheme for the year ended 31 December 2013 was RMB4,434,000 (2012: RMB9,580,000).

## (d) Share Award Scheme

Movements in the number of shares held for the Share Award Scheme for the years ended 31 December 2013 are as follows:

	Shares held for the Share Award Scheme	Awarded shares held by the Share Award Scheme Trust
At 1 January 2013	38,353,000	–
Granted to employees	(7,502,000)	7,502,000
Forfeited	444,000	(444,000)
At 31 December 2013	31,295,000	7,058,000
At 1 January 2012 and 31 December 2012	38,353,000	–

# Notes to the Consolidated Financial Statements

## 19 Other Reserves (continued)

### (d) Share Award Scheme (continued)

For the shares granted under the Share Award Scheme, the fair value of the employee services received in exchange for the grant of the awarded shares is recognised as an expense and credited to equity over the period in which the vesting conditions are fulfilled. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted.

The fair value of the awarded shares was calculated based on market prices of the Company's shares as at the respective grant dates. The expected dividends during the vesting periods have been taken into account when assessing the fair value of the awarded shares.

The fair value of the awarded shares and their vesting period are as follows:

Date of grant	Market price at grant dates RMB/share	Vesting period	As at 31 December 2013	
			Total value of shares RMB'000	No. of share outstanding
6 June 2013	1.27	3 years	4,482	3,529,000
6 June 2013	1.27	4 years	4,482	3,529,000
			<b>8,964</b>	<b>7,058,000</b>

The total expense recognised for employee services received in respect of the Share Award Scheme for the year ended 31 December 2013 was RMB2,059,000 (2012: nil).

### (e) Other comprehensive income

	Year ended 31 December 2013		
	Revaluation reserves RMB'000	Non-controlling interests RMB'000	Total other comprehensive income RMB'000
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gains on available-for-sale financial assets – gross (Note 13)	344	–	344
Tax charge	–	–	–
<b>Total other comprehensive income – net of tax</b>	<b>344</b>	<b>–</b>	<b>344</b>
<b>Total tax charge – deferred income tax</b>			<b>–</b>

## 19 Other Reserves (continued)

## (e) Other comprehensive income (continued)

	Year ended 31 December 2012		
	Revaluation reserves RMB'000	Non-controlling interests RMB'000	Total other comprehensive income RMB'000
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation reserves of property and equipment and land use rights transferred to investment properties – gross	104,199	6,640	110,839
Tax charge	(26,050)	(1,660)	(27,710)
	78,149	4,980	83,129
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gains on available-for-sale financial assets – gross (Note 13)	158	–	158
Tax charge	(26)	–	(26)
	132	–	132
<b>Total other comprehensive income – net of tax</b>	<b>78,281</b>	<b>4,980</b>	<b>83,261</b>
<b>Total tax charge – deferred income tax</b>	<b>–</b>	<b>–</b>	<b>(27,736)</b>

# Notes to the Consolidated Financial Statements

## 20 Borrowings

	Group 31 December		Company 31 December	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Borrowings included in non-current liabilities:				
Senior notes	<b>5,188,866</b>	2,882,764	<b>5,188,866</b>	2,882,764
– senior notes due January 2018 (“2018 Notes”) (Note (a)(i))	<b>1,561,245</b>	–	<b>1,561,245</b>	–
– senior notes due May 2016 (“2016 Notes”) (Note (a)(ii))	<b>797,644</b>	–	<b>797,644</b>	–
– senior notes due September 2015 (“2015 Notes”) (Note (a)(iii))	<b>1,242,366</b>	1,287,259	<b>1,242,366</b>	1,287,259
– senior notes due March 2014 (“2014 Notes (I)”) (Note (a)(iv))	<b>773,200</b>	762,824	<b>773,200</b>	762,824
– senior notes due September 2014 (“2014 Notes (II)”) (Note (a)(v))	<b>814,411</b>	832,681	<b>814,411</b>	832,681
Bank borrowings	<b>9,511,021</b>	5,025,145	<b>563,780</b>	257,395
– secured (Note (b))	<b>9,511,021</b>	4,767,750	<b>563,780</b>	–
– unsecured	–	257,395	–	257,395
Other borrowings-secured (Note (c))	<b>455,000</b>	1,580,000	–	–
Borrowings under sale and lease back agreement – secured (Note (d))	<b>105,678</b>	169,743	–	–
Less: amounts due within one year	<b>(3,405,829)</b>	(1,925,876)	<b>(1,718,119)</b>	(243,321)
	<b>11,854,736</b>	7,731,776	<b>4,034,527</b>	2,896,838
Borrowings included in current liabilities:				
Bank borrowings	<b>1,094,221</b>	1,155,580	<b>333,790</b>	–
– secured (Note (b))	<b>1,043,721</b>	970,580	<b>333,790</b>	–
– unsecured	<b>50,500</b>	185,000	–	–
Other borrowings	<b>75,373</b>	240,794	–	–
– secured (Note (c))	<b>75,373</b>	185,127	–	–
– unsecured	–	55,667	–	–
Current portion of long-term borrowings	<b>3,405,829</b>	1,925,876	<b>1,718,119</b>	243,321
	<b>4,575,423</b>	3,322,250	<b>2,051,909</b>	243,321
Total borrowings	<b>16,430,159</b>	11,054,026	<b>6,086,436</b>	3,140,159

## 20 Borrowings (continued)

### (a) Senior notes

#### (i) 2018 Notes

On 25 January 2013, the Company issued 11.25%, 5 years senior notes, with an aggregated nominal value of US\$250,000,000 at 98.608% discount to face value. The net proceeds, after deducting the issuance costs, amounted to US\$241,670,000 (equivalent to approximately RMB1,524,717,000). The 2018 Notes are denominated in the US\$.

The 2018 Notes recognised in the balance sheet are calculated as follows:

	Year ended 31 December 2013 RMB'000
Fair value at the date of issuance	1,524,717
Interest expenses and amortisation of issuance costs	170,653
Repayment of interest	(86,769)
Foreign exchange gains	(47,356)
At 31 December	1,561,245

#### (ii) 2016 Notes and derivative financial instruments

On 27 May 2013, the Company issued 9.50%, 3 years senior notes, with an aggregated nominal value of RMB800,000,000 at face value ("RMB Notional Amounts"). The net proceeds, after deducting the issuance costs, amounted to RMB787,522,000. The 2016 Notes are denominated in RMB.

The 2016 Notes recognised in the balance sheet are calculated as follows:

	Year ended 31 December 2013 RMB'000
Fair value at the date of issuance	787,522
Interest expenses and amortisation of issuance costs	48,122
Repayment of interest	(38,000)
At 31 December	797,644

On the issuance date of 2016 Notes, the Company entered into cross currency swap ("CCS") with a bank. According to the CCS, the Company exchanged RMB800,000,000 with the bank for equivalent US\$130,399,000 ("US\$ Notional Amounts"). The Company needs to pay interest at 8.4% per annum based on the US\$ Notional Amounts at each interest payment date of 2016 Notes. On maturity of 2016 Notes, the Company needs to deliver the US\$ Notional Amounts to the bank in exchange with the RMB Notional Amounts.

CCS is not designated as a hedging instrument but a derivative financial instrument and recognised at fair value. The fair value of the CCS as at 31 December 2013 is an asset of RMB11,406,000.

# Notes to the Consolidated Financial Statements

## 20 Borrowings (continued)

### (a) Senior notes (continued)

#### (iii) 2015 Notes

On 16 September 2010, the Company issued 13.75%, 5 years senior notes, with an aggregated nominal value of US\$200,000,000 at face value. The net proceeds, after deducting the issuance costs, amounted to US\$194,800,000 (equivalent to approximately RMB1,308,511,000). The 2015 Notes are denominated in US\$.

The 2015 Notes recognised in the balance sheet are calculated as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
At 1 January	1,287,259	1,284,301
Interest expenses and amortisation of issuance costs	191,491	191,238
Repayment of interest	(170,954)	(184,723)
Repurchase	(12,213)	–
Foreign exchange gains	(53,217)	(3,557)
At 31 December	1,242,366	1,287,259

#### (iv) 2014 Notes (I)

On 17 March 2011, the Company issued 11.5%, 3 years senior notes, with an aggregated nominal value of RMB750,000,000 at face value. The net proceeds, after deducting the issuance costs, amounted to approximately RMB722,193,000. The 2014 Notes (I) are denominated in RMB.

The 2014 Notes (I) recognised in the balance sheet are calculated as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
At 1 January	762,824	753,686
Interest expenses and amortisation of issuance costs	96,980	95,388
Repayment of interest	(86,604)	(86,250)
At 31 December	773,200	762,824

## 20 Borrowings (continued)

### (a) Senior notes (continued)

#### (v) 2014 Notes (II)

On 8 September 2011, the Company issued 13.8%, 3 years senior notes, with an aggregated nominal value of HK\$1,000,000,000 at face value to a financial institution. The net proceeds, after deducting the issuance costs, amounted to HK\$973,124,000 (equivalent to approximately RMB797,680,000). The 2014 Notes (II) were additionally guaranteed by certain related parties (Note 36(b)(ii)). The 2014 Notes (II) are denominated in HK\$.

The 2014 Notes (II) recognised in the balance sheet are calculated as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
At 1 January	832,681	825,836
Interest expenses and amortisation of issuance costs	120,380	119,937
Repayment of interest	(110,724)	(113,120)
Foreign exchange (gains)/losses	(27,926)	28
At 31 December	814,411	832,681

### (b) Bank borrowings – secured

As at 31 December 2013, bank borrowings of RMB10,554,742,000 (2012: RMB5,738,330,000) were secured by property and equipment (Note 6), land use rights (Note 7), investment properties (Note 8), properties under development (Note 9), completed properties held for sale (Note 10) and restricted cash (Note 16); the secured bank borrowings of RMB2,600,570,000 (2012: RMB679,800,000) were additionally guaranteed by certain related parties (Note 36(b)(ii)).

As at 31 December 2013, short-term bank borrowings of RMB1,094,221,000 (2012: RMB1,155,580,000) were mainly included working capital loans and off-shore loans.

### (c) Other borrowings – secured

As at 31 December 2013, borrowings from other financial institutions of RMB530,373,000 (2012: RMB1,765,127,000) were secured by land use rights (Note 7), investment properties (Note 8), properties under development (Note 9) and completed properties held for sale (Note 10).

### (d) Borrowings under sale and lease back agreement – secured

In 2012, the Group has entered into a sale and lease back agreement with an independent third party for certain machinery and equipment installed in the Group's property and equipment and investment properties. The lease period is three years and the Group has an option to take up the machinery and equipment at the end of the lease period at nil consideration. This transaction was treated as a finance lease and thus, the machinery and equipment has not been derecognised, the present value of total lease payments was recognised as borrowings under sale and lease back agreement of the Group and the finance charges of the borrowings are calculated under the effective interest method and recognised as finance costs of the Group.



# Notes to the Consolidated Financial Statements

## 20 Borrowings (continued)

### (d) Borrowings under sale and lease back agreement – secured (continued)

The present value of borrowings under sale and lease back agreement is as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
No later than 1 year	69,109	64,065
Later than 1 year and not later than 3 years	36,569	105,678
	<b>105,678</b>	<b>169,743</b>

### (e) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates or maturity date whichever is earlier at the end of the year are as follows:

#### The Group

	6 months or less RMB'000	6-12 months RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Borrowings included in non-current liabilities:					
At 31 December 2013	2,212,349	5,032,140	4,470,247	140,000	11,854,736
At 31 December 2012	680,712	3,118,729	3,932,335	–	7,731,776
Borrowings included in current liabilities:					
At 31 December 2013	1,876,116	2,699,307	–	–	4,575,423
At 31 December 2012	1,691,616	1,630,634	–	–	3,322,250

#### The Company

	6 months or less RMB'000	6-12 months RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Borrowings included in non-current liabilities:					
At 31 December 2013	563,780	–	3,470,747	–	4,034,527
At 31 December 2012	–	125,180	2,771,658	–	2,896,838
Borrowings included in current liabilities:					
At 31 December 2013	1,106,989	944,920	–	–	2,051,909
At 31 December 2012	111,106	132,215	–	–	243,321

## 20 Borrowings (continued)

(f) The carrying amounts and fair value of the non-current borrowings are as follows:

The Group	31 December 2013		31 December 2012	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	RMB'000	RMB'000	RMB'000	RMB'000
2018 Notes (Note (i))	1,486,548	1,547,858	–	–
2016 Notes (Note (i))	790,524	793,701	–	–
2015 Notes (Note (ii))	1,193,675	1,292,825	1,236,645	1,320,860
2014 Notes (I) (Note (ii))	–	–	737,569	730,907
2014 Notes (II) (Note (iii))	–	–	797,444	797,444
Bank borrowings (Note (iii))	8,347,420	8,366,838	3,799,440	3,799,440
Other borrowings (Note (iii))	–	–	1,055,000	1,092,652
Borrowings under sale and lease back agreement (Note (iii))	36,569	36,569	105,678	105,678
	<b>11,854,736</b>	<b>12,037,791</b>	<b>7,731,776</b>	<b>7,846,981</b>

  

The Company	31 December 2013		31 December 2012	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	RMB'000	RMB'000	RMB'000	RMB'000
2018 Notes (Note (i))	1,486,548	1,547,858	–	–
2016 Notes (Note (i))	790,524	793,701	–	–
2015 Notes (Note (ii))	1,193,675	1,292,825	1,236,645	1,320,860
2014 Notes (I) (Note (i))	–	–	737,569	730,907
2014 Notes (II) (Note (ii))	–	–	797,444	797,444
Bank Borrowings (Note (ii))	563,780	563,780	125,180	125,180
	<b>4,034,527</b>	<b>4,198,164</b>	<b>2,896,838</b>	<b>2,974,391</b>

Notes:

- (i) The fair values are determined directly by references to the price quotations published by the Stock Exchange on 31 December 2013, using the pricing of dealing date and are within Level 1 of the fair value hierarchy.
- (ii) The fair values are determined directly by references to the price quotations published by Singapore Exchange Limited on 31 December 2013 and 2012, using the pricing of dealing date and are within level 1 of the fair value hierarchy.
- (iii) The fair values are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date and are within level 2 of the fair value hierarchy.

# Notes to the Consolidated Financial Statements

## 20 Borrowings (continued)

(g) The Group's and the Company's non-current borrowings are repayable as follows:

	Senior notes RMB'000	Bank borrowings RMB'000	Other borrowings RMB'000	Borrowings under sale and lease back agreement RMB'000	Total RMB'000
<b>The Group</b>					
As at 31 December 2013					
1–2 years	2,160,838	3,444,421	–	36,569	5,641,828
2–5 years	1,309,909	2,759,500	–	–	4,069,409
Over 5 years	–	2,143,499	–	–	2,143,499
	<b>3,470,747</b>	<b>8,347,420</b>	<b>–</b>	<b>36,569</b>	<b>11,854,736</b>
As at 31 December 2012					
1–2 years	1,535,013	1,159,443	1,055,000	69,109	3,818,565
2–5 years	1,236,645	2,031,717	–	36,569	3,304,931
Over 5 years	–	608,280	–	–	608,280
	2,771,658	3,799,440	1,055,000	105,678	7,731,776
<b>The Company</b>					
As at 31 December 2013					
1–2 years	2,160,838	563,780	–	–	2,724,618
2–5 years	1,309,909	–	–	–	1,309,909
	<b>3,470,747</b>	<b>563,780</b>	<b>–</b>	<b>–</b>	<b>4,034,527</b>
As at 31 December 2012					
1–2 years	1,535,013	125,180	–	–	1,660,193
2–5 years	1,236,645	–	–	–	1,236,645
	2,771,658	125,180	–	–	2,896,838

## 20 Borrowings (continued)

(h) The maturity of the borrowings is as follows:

	Senior notes RMB'000	Bank borrowings RMB'000	Other borrowings RMB'000	Borrowings under sale and lease back agreement RMB'000	Total RMB'000
<b>The Group</b>					
As at 31 December 2013					
Wholly repayable within 5 years	5,188,866	6,984,242	530,373	105,678	12,809,159
Wholly repayable after 5 years	–	3,621,000	–	–	3,621,000
	<b>5,188,866</b>	<b>10,605,242</b>	<b>530,373</b>	<b>105,678</b>	<b>16,430,159</b>
As at 31 December 2012					
Wholly repayable within 5 years	2,882,764	4,755,525	1,820,794	169,743	9,628,826
Wholly repayable after 5 years	–	1,425,200	–	–	1,425,200
	2,882,764	6,180,725	1,820,794	169,743	11,054,026
<b>The Company</b>					
As at 31 December 2013					
Wholly repayable within 5 years	5,188,866	897,570	–	–	6,086,436
Wholly repayable after 5 years	–	–	–	–	–
	<b>5,188,866</b>	<b>897,570</b>	<b>–</b>	<b>–</b>	<b>6,086,436</b>
As at 31 December 2012					
Wholly repayable within 5 years	2,882,764	257,395	–	–	3,140,159
Wholly repayable after 5 years	–	–	–	–	–
	2,882,764	257,395	–	–	3,140,159

(i) The effective interest rates of borrowings are as follows:

	Group 31 December		Company 31 December	
	2013	2012	2013	2012
2018 Notes	12.40%	–	12.40%	–
2016 Notes	10.60%	–	10.60%	–
2015 Notes	15.02%	15.02%	15.02%	15.02%
2014 Notes (I)	13.46%	13.46%	13.46%	13.46%
2014 Notes (II)	15.50%	15.50%	15.50%	15.50%
Bank and other borrowings	7.31%	8.59%	3.41%	4.71%
Borrowings under sale and lease back agreement	7.65%	7.90%	–	–

# Notes to the Consolidated Financial Statements

## 20 Borrowings (continued)

(j) The carrying amounts of borrowings are denominated in the following currencies:

	Group 31 December		Company 31 December	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	<b>11,896,664</b>	8,477,441	<b>1,570,844</b>	762,824
HK\$	<b>1,148,200</b>	1,031,931	<b>1,148,200</b>	832,681
US\$	<b>3,385,295</b>	1,544,654	<b>3,367,392</b>	1,544,654
	<b>16,430,159</b>	11,054,026	<b>6,086,436</b>	3,140,159

(k) As at 31 December 2013 and 2012, the Group had the following undrawn borrowing facilities:

	Group 31 December	
	2013 RMB'000	2012 RMB'000
Floating rate:		
– expiring within 1 year	–	265,940
– expiring beyond 1 year	<b>201,000</b>	80,572
Fixed rate:		
– expiring within 1 year	<b>12,500</b>	32,712
	<b>213,500</b>	379,224

## 21 Deferred Income Tax – Group

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	31 December	
	2013 RMB'000	2012 RMB'000
Deferred income tax assets		
– to be realised after more than 12 months	<b>133,260</b>	87,831
– to be realised within 12 months	<b>69,805</b>	79,263
	<b>203,065</b>	167,094
Deferred income tax liabilities to be settled after more than 12 months	<b>(3,187,587)</b>	(3,009,963)
Deferred income tax liabilities – net	<b>(2,984,522)</b>	(2,842,869)

## 21 Deferred Income Tax – Group (continued)

The gross movement on the deferred income tax is as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
At 1 January	(2,842,869)	(2,273,884)
Disposal of subsidiaries	–	(2,342)
Tax charged in consolidated income statement (Note 29)	(141,653)	(538,907)
Tax charge relating to components of other comprehensive income	–	(27,736)
At 31 December	(2,984,522)	(2,842,869)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

### Deferred income tax assets

	Temporary difference on unrealised profit of inter-company transactions RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2013	125,088	93,049	218,137
Tax credited to consolidated income statement	24,001	3,612	27,613
At 31 December 2013	149,089	96,661	245,750
At 1 January 2012	49,618	97,258	146,876
Disposal of subsidiaries	–	(2,342)	(2,342)
Tax credited/(charged) to consolidated income statement	75,470	(1,867)	73,603
At 31 December 2012	125,088	93,049	218,137

# Notes to the Consolidated Financial Statements

## 21 Deferred Income Tax – Group (continued)

### Deferred income tax liabilities

	Temporary difference on unrealised profit of inter-company transactions RMB'000	Temporary difference on revaluation gains of investment properties RMB'000	Temporary difference on revaluation reserves recognised in other comprehensive income RMB'000	Total RMB'000
At 1 January 2013	(2,317)	(3,030,953)	(27,736)	(3,061,006)
Tax charged in consolidated income statement	(459)	(168,807)	–	(169,266)
At 31 December 2013	(2,776)	(3,199,760)	(27,736)	(3,230,272)
At 1 January 2012	–	(2,420,760)	–	(2,420,760)
Tax charged to consolidated income statement	(2,317)	(610,193)	–	(612,510)
Tax charge relating to components of other comprehensive income	–	–	(27,736)	(27,736)
At 31 December 2012	(2,317)	(3,030,953)	(27,736)	(3,061,006)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB45,929,000 (2012: RMB54,267,000) in respect of losses amounting to RMB179,620,000 (2012: RMB217,856,000) that can be carried forward against future taxable income. The tax losses could be carried forward for a maximum of five years.

Deferred income tax liabilities of RMB1,301,074,000 (2012: RMB1,148,768,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled RMB14,515,648,000 at 31 December 2013 (2012: RMB13,079,713,000), as the Group does not have a plan to distribute these earnings out of the PRC.

## 22 Trade and Other Payables

	Group		Company	
	31 December		31 December	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	<b>2,100,340</b>	2,040,328	–	–
– Related parties (Note 36(d))	<b>18,969</b>	19,097	–	–
– Third parties	<b>1,874,378</b>	1,631,871	–	–
– Notes payable – third parties	<b>206,993</b>	389,360	–	–
Other payables and accruals	<b>2,342,782</b>	1,375,241	<b>42,562</b>	36,135
– Related parties (Note 36(d))	<b>1,167,351</b>	531,425	<b>32,900</b>	32,900
– Third parties	<b>1,175,431</b>	843,816	<b>9,662</b>	3,235
Payables for retention fee	<b>208,928</b>	169,959	–	–
Payables for acquisition of land use rights	<b>53,834</b>	166,834	–	–
Other taxes payables	<b>163,580</b>	157,653	–	–
	<b>4,869,464</b>	3,910,015	<b>42,562</b>	36,135

As at 31 December 2013 and 2012, the ageing analysis of trade payables of the Group based on invoice date is as follows:

	31 December	
	2013	2012
	RMB'000	RMB'000
Within 90 days	<b>343,266</b>	827,822
Over 90 days and within 180 days	<b>160,408</b>	483,972
Over 180 days and within 365 days	<b>968,207</b>	226,616
Over 365 days and within 3 years	<b>628,459</b>	501,918
	<b>2,100,340</b>	2,040,328

## 23 Current Income Tax Liabilities – Group

The current income tax liabilities are analysed as follows:

	31 December	
	2013	2012
	RMB'000	RMB'000
Current income tax liabilities		
– PRC corporate income tax payable	<b>1,063,742</b>	965,850
– Withholding income tax for the profits to be distributed from the group companies in the PRC	<b>93,300</b>	107,711
– PRC land appreciation tax payable	<b>1,026,225</b>	1,026,774
	<b>2,183,267</b>	2,100,335



# Notes to the Consolidated Financial Statements

## 24 Expenses by Nature

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Cost of properties sold (excluding staff costs)	4,200,275	2,595,218
Staff costs (including directors' emoluments) (Note 25)	472,040	404,599
Business taxes and other levies (Note (a))	427,800	343,697
Cost of hotel operations	149,585	169,533
Advertising costs	167,183	118,433
Depreciation (Note 6)	110,451	113,422
Cost of property management service	75,592	58,776
Amortisation of land use rights (Note 7)	13,863	17,160
Office lease payments	12,248	13,227
Donations to governmental charity	10,709	7,806
Auditor's remuneration	6,480	4,280

### (a) Business taxes

The group entities established in the PRC are subject to business taxes on their revenue at the following rates:

Category	Rate
Sales of properties	5%
Property construction and decoration	3%
Rental income	5%
Property management	5%
Hotel service	5%

## 25 Staff Costs

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Wages and salaries	383,053	330,490
Pension costs – statutory pension (Note (c))	58,528	42,106
Other staff welfare and benefits	23,966	22,423
Pre-IPO Share Option Scheme	4,434	9,580
Share Award Scheme	2,059	–
	472,040	404,599

## 25 Staff Costs (continued)

### (a) Directors' emoluments

The remuneration of each director of the Company for the year ended 31 December 2013 is set out below:

	Wages and salaries RMB'000	Retirement scheme contributions RMB'000	Fee RMB'000	Pre-IPO Share Option Scheme RMB'000	Share Award Scheme RMB'000	Total RMB'000
Executive directors:						
Mr. Hoi Kin Hong	480	-	240	1,090	89	1,899
Mr. Hoi Wa Fong	240	-	240	342	89	911
Mr. Xiao Qing Ping	326	18	240	280	122	986
Ms. Shih Sze Ni	90	-	240	187	63	580
Non-executive directors:						
Ms. Liu Xiao Lan	-	-	142	187	-	329
Ms. Hoi Wa Fan	-	-	142	-	-	142
Independent non-executive directors:						
Mr. Ngai Wai Fung	-	-	189	-	-	189
Mr. Mei Jian Ping	-	-	189	-	-	189
Ms. Nie Mei Sheng	-	-	189	-	-	189
	1,136	18	1,811	2,086	363	5,414

The remuneration of each director of the Company for the year ended 31 December 2012 is set out below:

	Wages and salaries RMB'000	Retirement scheme contributions RMB'000	Fee RMB'000	Pre-IPO Share Option Scheme RMB'000	Share Award Scheme RMB'000	Total RMB'000
Executive directors:						
Mr. Hoi Kin Hong	480	-	240	1,929	-	2,649
Mr. Hoi Wa Fong	240	-	240	606	-	1,086
Mr. Xiao Qing Ping	236	15	240	496	-	987
Ms. Shih Sze Ni	-	-	240	331	-	571
Non-executive directors:						
Ms. Liu Xiao Lan (Note a)	43	7	162	331	-	543
Ms. Hoi Wa Fan	-	-	146	-	-	146
Independent non-executive directors:						
Mr. Ngai Wai Fung	-	-	195	-	-	195
Mr. Mei Jian Ping	-	-	195	-	-	195
Ms. Nie Mei Sheng	-	-	195	-	-	195
	999	22	1,853	3,693	-	6,567

Note a: Ms. Liu Xiao Lan re-designated as a non-executive director from 1 April 2012.

During the year ended 31 December 2013, none of the directors of the Company waived his/her emoluments nor has agreed to waive his/her emoluments for the year (2012: same).

# Notes to the Consolidated Financial Statements

## 25 Staff Costs (continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year including three (2012: same) directors whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments of the remaining two (2012: same) individuals during the years are set out below:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Wages and salaries	1,176	1,504
Retirement scheme contributions	110	52
Pre-IPO Share Option Scheme	498	441
Share Award Scheme	143	–
	<b>1,927</b>	<b>1,997</b>

The emoluments fell within the following bands:

Emolument bands (in HK\$)	Number of individuals	
	2013	2012
HK\$1,000,000 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	–	–

### (c) Pensions – defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income, with a maximum cap per employee per month.

## 26 Other Gains/(Losses) – Net

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Interest income on entrusted loans	21,702	19,894
Gain on disposal of investment properties	54,878	–
Fair value gains on derivative financial instruments (Note 20(a)(ii))	11,406	–
Investment income from financial instruments	7,384	116
Loss from disposal of a subsidiary	–	(38,451)
Revaluation loss recognised on transfer of property and equipment and land use rights to investment properties	–	(37,999)
	<b>95,370</b>	<b>(56,440)</b>

## 27 Exchange Losses – Net

Amount mainly represents the gain or loss of translation of financial assets and liabilities, which are denominated in foreign currency, into RMB at the prevailing year-end exchange rate. It does not include the exchange gain or loss of translation of borrowings which are included in the finance income/(costs) – net (Note 28).

## 28 Finance Income/(Costs) – Net

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Interest expenses:		
– Bank borrowings, other borrowings and borrowings under sale and lease back agreement	(768,625)	(731,532)
– Senior notes	(627,626)	(406,563)
Less: interest capitalised	1,361,369	1,104,134
	<b>(34,882)</b>	<b>(33,961)</b>
Net foreign exchange gains on financing activities	155,905	4,572
	<b>121,023</b>	<b>(29,389)</b>

# Notes to the Consolidated Financial Statements

## 29 Income Tax Expense

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Current tax:		
– PRC corporate income tax	343,281	266,763
– PRC land appreciation tax	192,891	355,660
– (Reversal of)/provision of withholding income tax for profits to be distributed from the group companies in the PRC	(14,411)	35,982
Deferred income tax:		
– PRC corporate income tax	141,653	538,907
	<b>663,414</b>	<b>1,197,312</b>

The tax charge on other comprehensive income has been disclosed in Note 19(e).

The income tax on the profit before income tax of the Group differs from the theoretical amount that would arise using the enacted tax rate of the home country of the group entities as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Profit before income tax	2,063,590	3,410,298
Calculated at applicable corporate income tax rate	506,524	796,355
Effect of expenses not deductible for income tax	12,264	78,626
Effect of income not subject to income tax	(4,469)	(1,143)
Share of profit of investments accounted for using the equity method	(27,091)	(33,520)
Tax losses for which no deferred income tax asset was recognised	45,929	54,267
PRC land appreciation tax deductible for PRC corporate income tax purposes	(48,223)	(88,915)
	<b>484,934</b>	<b>805,670</b>
(Reversal of)/provision of withholding income tax for profits to be distributed by certain group companies in the PRC	(14,411)	35,982
PRC land appreciation tax	192,891	355,660
	<b>663,414</b>	<b>1,197,312</b>

## 29 Income Tax Expense (continued)

### PRC corporate income tax

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), which is effective from 1 January 2008. Under the CIT Law, the corporate income tax rate applicable to the group entities located in Mainland China is 25%.

According to the CIT Law, starting from 1 January 2008, a withholding tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil requirements under the tax treaty arrangements between the PRC and Hong Kong.

### PRC land appreciation tax ("LAT")

Pursuant to the requirements of the Provisional Regulations of the PRC on LAT effective 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT effective on 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

The Group has made provision of LAT for sales of properties according to the aforementioned progressive rate, except for certain group companies which calculate the LAT based on deemed tax rates in accordance with the approved taxation method obtained from tax authorities.

### Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the British Virgin Islands was incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, is exempted from British Virgin Islands income tax.

### Hong Kong profits tax

No provision for Hong Kong profits tax has been made in these consolidated financial statements as the Company and the Group did not have assessable profit in Hong Kong for the year. The profit of the group entities in Hong Kong is mainly derived from dividend income, which is not subject to Hong Kong profits tax.

# Notes to the Consolidated Financial Statements

## 30 Retained Earnings of the Company

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
As at 1 January	339,246	252,759
Profit for the year	149,040	329,368
Pre-IPO Share Option Scheme	18,023	–
Dividends (Note 32)	(323,841)	(242,881)
As at 31 December	182,468	339,246

## 31 Earnings Per Share

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Group and held for Share Award Scheme (Note 18 (a)).

	Year ended 31 December	
	2013	2012
Profit attributable to owners of the Company (RMB'000)	1,403,536	2,193,852
Weighted average number of ordinary shares in issue (thousand shares)	4,009,660	4,009,786
Basic earnings per share (RMB cents per share)	35.00	54.71

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: Pre-IPO Share Option Scheme and Share Award Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options under the two schemes. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the two schemes.

	Year ended 31 December	
	2013	2012
Profit attributable to owners of the Company (RMB'000)	1,403,536	2,193,852
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	4,012,102	4,009,786
– Weighted average number of ordinary shares for basic earnings per share (thousand shares)	4,009,660	4,009,786
– Adjustment for share options and awarded shares (thousand shares)	2,442	–
Diluted earnings per share (RMB cents per share)	34.98	54.71

## 32 Dividends

The dividend paid in 2013 included the payment of the 2012 final cash dividend of RMB0.08 cents (2012: RMB0.06 cents) per ordinary share out of the retained earnings, totaling RMB320,773,000 (2012: RMB240,580,000), excluding the dividend related to the ordinary shares held under the Share Award Scheme of RMB3,068,000 (2012: RMB2,301,000) (Note 18 (a)).

No final dividend in respect of the year ended 31 December 2013 was proposed by the Board.

## 33 Cash (Used in)/Generated from Operations – Group

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Profit before taxation	<b>2,063,590</b>	3,410,298
Adjustments for:		
Depreciation (Note 6)	<b>110,451</b>	113,422
Amortisation of land use rights recognised as expense (Note 7)	<b>13,863</b>	17,160
Fair value gains on investment properties – net (Note 8)	<b>(530,672)</b>	(1,743,684)
Share of profit of investments accounted for using the equity method (Note 15)	<b>(108,365)</b>	(134,079)
Elimination of unrealised profits (Note 15)	<b>8,856</b>	8,787
Amortisation of Pre-IPO Share Option Scheme and Share Award Scheme (Note 19)	<b>6,493</b>	9,580
Other (gains)/losses – net	<b>(95,884)</b>	56,556
Finance (income)/costs – net (Note 28)	<b>(121,023)</b>	29,389
Effect of foreign exchange rate changes	<b>22,543</b>	(248)
Changes in operating capital:		
– Properties under construction and completed properties held for sale	<b>(217,636)</b>	(3,917,333)
– Restricted cash	<b>68,602</b>	(59,324)
– Trade and other receivables	<b>(568,130)</b>	(278,322)
– Prepayments	<b>(1,888,521)</b>	1,796,543
– Financial assets at fair value through profit or loss	<b>(12,850)</b>	774
– Trade and other payables	<b>314,447</b>	588,396
– Advances from customers	<b>552,481</b>	848,268
Cash (used in)/generated from operation	<b>(381,755)</b>	746,183



# Notes to the Consolidated Financial Statements

## 34 Financial Guarantee Contracts

The face value of the financial guarantees issued by the Group and the Company is analysed as below:

The Group

	31 December	
	2013 RMB'000	2012 RMB'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties (Note (a))	4,711,027	3,723,131
Guarantees for borrowings of a joint venture (Note (b))	993,880	589,360
	<b>5,704,907</b>	<b>4,312,491</b>

The Company

	31 December	
	2013 RMB'000	2012 RMB'000
Guarantee for borrowings of subsidiaries (Note (b))	2,242,100	353,000

- (a) The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the mortgages. The directors of the Company are of the view that the fair value of financial guarantees is not significant.

- (b) It represents guarantees provided to a joint venture and subsidiaries of the Group to obtain borrowings. The Directors consider that the fair value of these contracts at the date of inception was minimal and understand the repayment was on schedule and risk of default in payment was remote, therefore no provision has been made in the financial statements for the guarantees.

## 35 Commitments – Group

## (a) Commitments for property development expenditures

	31 December	
	2013 RMB'000	2012 RMB'000
Contracted but not provided for		
– Property development activities	<b>4,471,549</b>	2,291,304
– Acquisition of land use rights	<b>3,031,035</b>	407,211
	<b>7,502,584</b>	2,698,515

## (b) Operating leases commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December	
	2013 RMB'000	2012 RMB'000
– Not later than one year	<b>11,957</b>	11,227
– Later than one year and not later than two years	<b>10,719</b>	11,227
– Later than two years and not later than three years	–	10,719
	<b>22,676</b>	33,173

# Notes to the Consolidated Financial Statements

## 36 Related Party Transactions

### (a) Name and relationship with related parties

Name	Relationship
Skylong Holdings Limited	The ultimate holding company of the Group (incorporated in Cayman Islands)
The Controlling Shareholders, including Mr. Hoi Kin Hong, Ms. Wang Lai Jan, Mr. Hoi Wa Fong and Ms. Hoi Wa Fan	Ultimate controlling shareholders of the Company and their close family member, Mr. Hoi Kin Hong, Mr. Hoi Wa Fong and Ms. Hoi Wa Fan are also directors of the Company
Sky Infinity Holdings Limited	Shareholder of the Company and fully owned subsidiary of Mr. Hoi Wa Fong
Powerlong Group Development Co., Ltd. 寶龍集團發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Macau Powerlong Group 澳門寶龍集團發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Xiamen Powerlong Information Industry Co., Ltd. 廈門寶龍信息產業發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Fuzhou Powerlong Amusement Management Company Limited 福州寶龍樂園遊樂有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Qingdao Powerlong Amusement Management Company Limited 青島寶龍樂園旅遊發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Qingdao BaoZhan New World Industry Co., Ltd. 青島寶展世新實業有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Fuzhou Cannes Department Store Company Limited 福州康城百貨有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Fujian Ping An Security Devices and Network Limited 福建平安報警網絡有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Zhengzhou Cannes Outlets Commercial Company Limited 鄭州康城奧特萊斯商業有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Great Merchant Limited 弘商有限責任公司	Ultimately controlled by Mr. Hoi Kin Hong
Tianjin Powerlong Jinjun Real Estate Co., Ltd. ("Tianjin Powerlong") 天津寶龍金駿房地產開發有限公司	Joint Venture
Quanzhou Shangquan Industrial Development Co., Ltd. 泉州市上泉實業發展有限公司	Associate

### 36 Related Party Transactions (continued)

#### (b) Transactions with related parties

- (i) During the years ended 31 December 2013 and 2012, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Rental income from fellow subsidiaries		
– Qingdao Powerlong Amusement Management Company Limited	–	13,501
– Fuzhou Powerlong Amusement Management Company Limited	<b>2,308</b>	2,308
	<b>2,308</b>	15,809
Property management fee income		
– Fellow subsidiaries ultimately controlled by Mr. Hoi Kin Hong	<b>797</b>	1,749
Purchase of office equipment and security intelligentisation system services from fellow subsidiaries		
– Fujian Ping An Security Devices and Network Limited	<b>41,538</b>	36,539
– Xiamen Powerlong Information Industry Co., Ltd.	<b>769</b>	437
	<b>42,307</b>	36,976
Hotel accommodation service fee charged by a fellow subsidiary		
– Macau Powerlong Group	<b>812</b>	684
Office lease expense charged by a fellow subsidiary		
– Xiamen Powerlong Information Industry Co., Ltd.	<b>1,485</b>	1,485
Sales of construction materials to a joint venture		
– Tianjin Powerlong	<b>20,534</b>	45,405
Consultation services provided to a joint venture		
– Tianjin Powerlong	<b>14,614</b>	14,586
Guarantees for borrowings to a joint venture		
– Tianjin Powerlong	<b>993,880</b>	589,360

The above transactions were charged in accordance with the terms of the underlying agreements.

- (ii) Certain related parties have provided guarantees for the Group's bank borrowings of RMB2,600,570,000 and senior notes of RMB814,411,000 at 31 December 2013 (2012: bank borrowings of RMB679,800,000 and senior notes of RMB832,681,000) (Note 20).
- (iii) In the opinion of the directors of the Company, the related party transactions were conducted in the ordinary course of business.

# Notes to the Consolidated Financial Statements

## 36 Related Party Transactions (continued)

### (c) Key management compensation

Key management compensation is set out below.

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Key management compensation		
– Salaries and other employee benefits	12,166	12,124
– Pension costs	763	427
	<b>12,929</b>	<b>12,551</b>

### (d) Balances with related parties

As at 31 December 2013, the Group had the following material balances with related parties:

	31 December	
	2013 RMB'000	2012 RMB'000
Amounts due from fellow subsidiaries included in trade receivables (Note (i))		
– Qingdao Powerlong Amusement Management Company Limited	35,754	40,243
– Zhengzhou Cannes Outlets Commercial Company Limited	15,713	15,713
– Fuzhou Powerlong Amusement Management Company Limited	174	3,172
– Qingdao BaoZhan New World Industry Co. Ltd.	–	2,678
– Other related entities ultimately controlled by Mr. Hoi Kin Hong	–	3,174
	<b>51,641</b>	<b>64,980</b>
Amounts due from a joint venture included in trade receivables (Note (i))		
– Tianjin Powerlong	1,475	13,102
Amounts due from fellow subsidiaries included in other receivables (Note (ii))		
– Powerlong Group Development Co., Ltd.	21,376	21,376
– Qingdao Powerlong Amusement Management Company Limited	1,461	1,461
– Zhengzhou Cannes Outlets Commercial Company Limited	495	1,161
– Other related entities ultimately controlled by Mr. Hoi Kin Hong	15	1,371
	<b>23,347</b>	<b>25,369</b>

## 36 Related Party Transactions (continued)

## (d) Balances with related parties (continued)

	31 December	
	2013 RMB'000	2012 RMB'000
Amounts due to fellow subsidiaries included in trade payables (Note (i)):		
– Fujian Ping An Security Devices and Network Limited	17,296	17,386
– Other related entities ultimately controlled by Mr. Hoi Kin Hong	1,673	1,711
	<b>18,969</b>	19,097
Amounts due to a fellow subsidiary and ultimate controlling shareholder included in other payables (Note (ii)):		
– Great Merchant Limited	77,745	258,770
– Mr. Hoi Kin Hong	32,900	32,900
	<b>110,645</b>	291,670
Amounts due to a joint venture included in other payables (Note (ii)):		
– Tianjin Powerlong (Note 15)	1,014,706	239,755
Amounts due to an associate included in other payables (Note (ii)):		
– Quanzhou Shangquan Industrial Development Co., Ltd. (Note 15)	42,000	–
Senior notes held by a shareholder of the Company (Note (iii)):		
– Sky Infinity Holdings Limited	35,128	36,687

(i) Amounts due from/to related parties included in trade receivables/payables are mainly derived from rental income and purchase of construction materials, which are unsecured, interest-free and to be settled according to contract terms.

(ii) Amounts due from/to related parties included in other receivables/payables are unsecured, interest-free and repayable on demand, which are cash advances in nature.

(iii) Sky Infinity Holdings Limited has purchased certain 2015 Notes issued by the Company through open market. The carrying amount of the 2015 Notes held by Sky Infinity Holdings Limited was RMB35,128,000 as at 31 December 2013 (2012: RMB36,687,000).

(e) Amount due from a director and entities ultimately controlled by the director  
Particulars of amounts due from a director of the Company and entities ultimately controlled by the director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	31 December		Maximum amount outstanding for the year ended 31 December	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Related entities ultimately controlled by Mr. Hoi Kin Hong (Note(d))	74,988	90,349	90,349	684,529

# Notes to the Consolidated Financial Statements

## 37 Principal Subsidiaries of the Company

Details of the principal subsidiaries of the Company at 31 December 2013 are set out below.

Name	Place and date of incorporation/ establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Attributable equity interest	Equity interests held by non-controlling interests	Principal activities and place of operations
Powerlong Real Estate (BVI) Holdings Limited	British Virgin Islands 20 July 2007	HK\$100	100%	–	Investment holding in British Virgin Islands
Powerlong Real Estate (Hong Kong) Holdings Limited	Hong Kong 5 July 2007	HK\$1	100%	–	Investment holding in Hong Kong
Wide Evolution Limited	Hong Kong 11 February 2008	HK\$1	100%	–	Investment holding in Hong Kong
福州寶龍房地產發展有限公司 Fuzhou Powerlong Real Estate Development Co., Ltd.	the PRC 21 October 2003	US\$8,000,000	100%	–	Property development and property investment in the PRC
蘇州寶龍房地產發展有限公司 Suzhou Powerlong Real Estate Development Co., Ltd.	the PRC 5 August 2004	US\$10,000,000	100%	–	Property development and property investment in the PRC
鄭州寶龍置業發展有限公司 Zhengzhou Pou Long Real Estate Development Co., Ltd.	the PRC 7 April 2005	RMB700,000,000	100%	–	Property development and property investment in the PRC
山東寶龍實業發展有限公司 Shandong Powerlong Industrial Development Co., Ltd.	the PRC 7 June 2005	RMB100,000,000	100%	–	Property development and property investment in the PRC
蚌埠寶龍置業有限公司 Bengbu Powerlong Real Estate Co., Ltd.	the PRC 21 February 2006	RMB20,000,000	100%	–	Property development and property investment in the PRC
洛陽寶龍置業發展有限公司 Luoyang Powerlong Property Development Company Limited	the PRC 3 March 2006	RMB80,000,000	100%	–	Property development and property investment in the PRC
寶龍集團(青島)置業發展有限公司 Powerlong Group (Qingdao) Property Development Co., Ltd.	the PRC 13 July 2006	RMB660,000,000	100%	–	Property development and property investment in the PRC
蘇州太倉寶龍大酒店有限公司 Suzhou Taicang Powerlong Hotel Co., Ltd.	the PRC 29 August 2006	RMB80,000,000	100%	–	Hotel operation in the PRC

## 37 Principal Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Attributable equity interest	Equity interests held by non-controlling interests	Principal activities and place of operations
無錫寶龍房地產發展有限公司 Wuxi Powerlong Real Estate Development Co., Ltd.	the PRC 1 November 2006	US\$15,000,000	80%	20%	Property development and property investment in the PRC
無錫玉祁寶龍置業有限公司 Wuxi Yuqi Powerlong Property Co., Ltd.	the PRC 27 February 2007	US\$15,000,000	100%	–	Property development and property investment in the PRC
青島寶龍房地產發展有限公司 Qingdao Powerlong Real Estate Development Co., Ltd.	the PRC 21 November 2007	US\$60,000,000	100%	–	Property development and property investment in the PRC
宿遷寶龍置業發展有限公司 Suqian Powerlong Property Development Company Limited	the PRC 10 December 2007	RMB100,000,000	100%	–	Property development and property investment in the PRC
煙台寶龍體育置業有限公司 Yantai Powerlong Real Estate Co., Ltd.	the PRC 19 December 2007	US\$54,950,000	100%	–	Property development and property investment in the PRC
新鄉寶龍置業發展有限公司 Xinxiang Powerlong Real Estate Development Co., Ltd.	the PRC 25 December 2007	US\$80,000,000	100%	–	Property development and property investment in the PRC
鹽城寶龍置業發展有限公司 Yancheng Powerlong Real Estate Development Co., Ltd.	the PRC 13 May 2008	US\$75,000,000	100%	–	Property development and property investment in the PRC
常州寶龍置業發展有限公司 Changzhou Powerlong Real Estate Development Co., Ltd.	the PRC 30 June 2008	US\$199,600,000	100%	–	Property development and property investment in the PRC
青島寶龍置業發展有限公司 Qingdao Powerlong Property Development Company Limited	the PRC 24 November 2009	US\$56,000,000	100%	–	Property development and property investment in the PRC
安溪寶龍置業發展有限公司 Anxi Powerlong Property Development Co., Ltd.	the PRC 27 January 2010	RMB52,500,000	85%	15%	Property development and property investment in the PRC



# Notes to the Consolidated Financial Statements

## 37 Principal Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Attributable equity interest	Equity interests held by non-controlling interests	Principal activities and place of operations
重慶寶龍長潤置業發展有限公司 Chongqing Powerlong Real Estate Co., Ltd.	the PRC 28 October 2010	US\$30,000,000	100%	–	Property development and property investment in the PRC
杭州寶龍房地產開發有限公司 Hangzhou Powerlong Real Estate Development Co., Ltd.	the PRC 14 December 2010	US\$199,900,000	100%	–	Property development and property investment in the PRC
晉江市晉龍實業發展有限公司 Jinjiang Jinlong Industrial Development Co., Ltd.	the PRC 20 December 2010	RMB100,000,000	100%	–	Property development and property investment in the PRC
天津寶龍城房地產開發有限公司 Tianjin Powerlong City Real Estate Development Co., Ltd.	the PRC 9 March 2011	RMB300,000,000	100%	–	Property development and property investment in the PRC
上海寶龍華睿房地產開發有限公司 Shanghai Powerlong Huarui Real Estate Development Co., Ltd.	the PRC 23 March 2011	RMB100,000,000	100%	–	Property development and property investment in the PRC
天津寶龍園房地產開發有限公司 Tianjin Powerlong Garden Real Estate Development Co., Ltd.	the PRC 11 April 2011	RMB100,000,000	100%	–	Property development and property investment in the PRC
上海寶龍康晟房地產發展有限公司 Shanghai Powerlong Kangsheng Real Estate Development Co., Ltd.	the PRC 11 August 2011	RMB100,000,000	100%	–	Property development and property investment in the PRC
鎮江寶龍置業發展有限公司 Zhenjiang Powerlong Property Development Co., Ltd.	the PRC 9 November 2011	US\$40,000,000	100%	–	Property development and property investment in the PRC
煙台寶龍置業發展有限公司 Yantai Powerlong Property Development Co., Ltd.	the PRC 6 June 2012	US\$15,000,000	100%	–	Property development and property investment in the PRC
青島寶龍英聚置地發展有限公司 Qingdao Powerlong Yingju Real Estate Development Co., Ltd.	the PRC 5 June 2013	US\$20,000,000	61%	39%	Property development and property investment in the PRC

## 37 Principal Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Attributable equity interest	Equity interests held by non-controlling interests	Principal activities and place of operations
青島寶龍英畧文化旅遊開發有限公司 Qingdao Powerlong Yingju Cultural Tourism Development Co., Ltd	the PRC 7 June 2013	US\$15,000,000	61%	39%	Property development and property investment in the PRC
上海寶龍康駿房地產開發有限公司 Shanghai Powerlong Kangjun Real Estate Development Co., Ltd	the PRC 30 July 2013	RMB100,000,000	100%	–	Property development and property investment in the PRC
淮安寶龍建設發展有限公司 Huaian Powerlong Construction Development Co. Ltd.	the PRC 3 September 2013	US\$30,000,000	100%	–	Property development and property investment in the PRC
煙台寶龍房地產開發有限公司 Yantai Powerlong Real Estate Development Co., Ltd.	the PRC 8 November 2013	US\$15,000,000	100%	–	Property development and property investment in the PRC
富陽寶龍房地產開發有限公司 Fuyang Powerlong Real Estate Development Co., Ltd.	the PRC 30 October 2013	US\$57,000,000	100%	–	Property development and property investment in the PRC
杭州蕭山寶龍置業有限公司 Hangzhou Xiaoshan Powerlong Real Estate Co., Ltd.	the PRC 7 November 2013	US\$60,000,000	100%	–	Property development and property investment in the PRC

The above table lists the principal subsidiaries of the Group which, in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The names of certain of the companies referred to in these consolidated financial statements represent management's best effort in translation of the Chinese names of these companies as no English names have been registered or available.

The subsidiaries established in the PRC in the above list are limited liability companies.

# Notes to the Consolidated Financial Statements

## 38 Transactions with non-controlling interests

(a) Acquisition of additional interest in a subsidiary

	Year ended 31 December 2013 RMB'000
Carrying amount of non-controlling interests acquired	1,018
Consideration paid to non-controlling interests	(2,000)
Loss of consideration paid recognised within equity	(982)

(b) Disposal of interests in subsidiaries without loss of control

On 6 December 2013, Powerlong BVI, a subsidiary of the Company disposed of 18% of interests in Powerlong (BVI) IV at an aggregate consideration of HK\$25,030,000 (approximately equivalent to RMB19,774,000). The Group recognised an increase in non-controlling interests of RMB10,311,000 and an increase in equity attributable to owners of the Company of RMB9,463,000. The effect of changes in the ownership interest of Powerlong (BVI) IV on the equity attributable to owners of the Company during the year is summarised as follows:

	Year ended 31 December 2013 RMB'000
Consideration received from non-controlling interests	19,774
Carrying amount of non-controlling interests disposed of	(10,311)
Gain on disposal within equity	9,463

(c) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended 31 December 2013:

	Year ended 31 December 2013 RMB'000
Changes in equity attributable to owners of the Company arising from:	
– Acquisition of additional interest in a subsidiary	(982)
– Disposal of interests in subsidiaries without loss of control	9,463
Net effect for transactions with non-controlling interests on equity attributable to owners of the Company	8,481

There were no transactions with non-controlling interests in 2012.

# Independent Auditor's Report



羅兵咸永道

**TO THE SHAREHOLDERS OF POWERLONG REAL ESTATE HOLDINGS LIMITED**  
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Powerlong Real Estate Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 66 to 154, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 17 March 2015

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# Consolidated Balance Sheet

	Note	31 December	
		2014 RMB'000	2013 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	6	1,898,666	1,694,201
Land use rights	7	797,138	569,862
Investment properties	8	24,381,596	19,590,330
Investments accounted for using the equity method	15	1,548,554	1,148,972
Deferred income tax assets	23	380,313	203,065
Derivative financial instruments	22	–	11,406
		<b>29,006,267</b>	<b>23,217,836</b>
<b>Current assets</b>			
Properties under development	9	13,668,618	11,371,010
Completed properties held for sale	10	6,162,421	3,521,049
Trade and other receivables	11	2,196,727	1,989,387
Prepayments	12	852,374	3,304,061
Prepaid taxes		300,334	241,216
Available-for-sale financial assets	13	16,042	30,801
Financial assets at fair value through profit or loss		1,500	14,600
Restricted cash	16	603,687	378,508
Cash and cash equivalents	17	4,345,757	4,434,449
		<b>28,147,460</b>	<b>25,285,081</b>
<b>Total assets</b>		<b>57,153,727</b>	<b>48,502,917</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital and premium	18	2,979,696	3,035,471
Other reserves	19	664,827	512,464
Retained earnings		14,965,316	13,589,210
		<b>18,609,839</b>	<b>17,137,145</b>
<b>Perpetual Capital Instruments</b>	20	<b>1,302,139</b>	–
<b>Non-controlling interests</b>		<b>697,504</b>	<b>508,988</b>
<b>Total equity</b>		<b>20,609,482</b>	<b>17,646,133</b>

## Consolidated Balance Sheet

	Note	31 December	
		2014 RMB'000	2013 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	21	14,294,043	11,854,736
Deferred income tax liabilities	23	3,314,613	3,187,587
Derivative financial instruments	22	81,178	–
		<b>17,689,834</b>	15,042,323
<b>Current liabilities</b>			
Trade and other payables	24	7,727,082	4,869,464
Advances from customers		4,641,997	4,186,307
Current income tax liabilities	25	2,194,391	2,183,267
Borrowings	21	4,290,941	4,575,423
		<b>18,854,411</b>	15,814,461
<b>Total liabilities</b>		<b>36,544,245</b>	30,856,784
<b>Total equity and liabilities</b>		<b>57,153,727</b>	48,502,917
<b>Net current assets</b>		<b>9,293,049</b>	9,470,620
<b>Total assets less current liabilities</b>		<b>38,299,316</b>	32,688,456

Hoi Kin Hong  
Director

Hoi Wa Fong  
Director

The notes on pages 73 to 154 are an integral part of these consolidated financial statements.

# Balance Sheet

	Note	31 December	
		2014 RMB'000	2013 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	14	6,298,433	6,289,912
Derivative financial instruments	22	–	11,406
		<b>6,298,433</b>	<b>6,301,318</b>
<b>Current assets</b>			
Amounts due from subsidiaries	14	5,173,948	3,664,512
Financial assets at fair value through profit or loss		–	13,100
Restricted cash		1,827	–
Cash and cash equivalents	17	17,287	39,193
		<b>5,193,062</b>	<b>3,716,805</b>
<b>Total assets</b>		<b>11,491,495</b>	<b>10,018,123</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital and premium	18	2,979,696	3,035,471
Other reserves	19	54,824	51,707
Retained earnings	32	300,200	182,468
<b>Total equity</b>		<b>3,334,720</b>	<b>3,269,646</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	21	5,511,803	4,034,527
Derivative financial instruments	22	81,178	–
		<b>5,592,981</b>	<b>4,034,527</b>
<b>Current liabilities</b>			
Other payables and accruals	24	55,000	42,562
Amounts due to subsidiaries	14	582,033	619,479
Borrowings	21	1,926,761	2,051,909
		<b>2,563,794</b>	<b>2,713,950</b>
<b>Total liabilities</b>		<b>8,156,775</b>	<b>6,748,477</b>
<b>Total equity and liabilities</b>		<b>11,491,495</b>	<b>10,018,123</b>
<b>Net current assets</b>		<b>2,629,268</b>	<b>1,002,855</b>
<b>Total assets less current liabilities</b>		<b>8,927,701</b>	<b>7,304,173</b>

Hoi Kin Hong  
Director

Hoi Wa Fong  
Director

The notes on pages 73 to 154 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Revenue	5	9,662,995	7,256,938
Cost of sales	26	(6,880,023)	(5,201,756)
<b>Gross profit</b>		<b>2,782,972</b>	<b>2,055,182</b>
Fair value gains on investment properties – net	8	599,325	530,672
Selling and marketing costs	26	(395,666)	(240,509)
Administrative expenses	26	(676,140)	(583,970)
Other (losses)/gains – net	28	(124,963)	95,370
Exchange gains/(losses) – net	29	4,721	(22,543)
<b>Operating profit</b>		<b>2,190,249</b>	<b>1,834,202</b>
Finance (costs)/income – net	30	(30,606)	121,023
Share of (loss)/profit of investments accounted for using the equity method	15	(709)	108,365
<b>Profit before income tax</b>		<b>2,158,934</b>	<b>2,063,590</b>
Income tax expense	31	(651,340)	(663,414)
<b>Profit for the year</b>		<b>1,507,594</b>	<b>1,400,176</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Revaluation gains on property and equipment and land use rights transferred to investment properties, net of tax	19	149,379	–
<i>Items that may be reclassified to profit or loss:</i>			
Change in value of available-for-sale financial assets, net of tax	19	(259)	344
<b>Total other comprehensive income for the year, net of tax</b>		<b>149,120</b>	<b>344</b>
<b>Total comprehensive income for the year</b>		<b>1,656,714</b>	<b>1,400,520</b>
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		1,370,828	1,403,536
Holder of Perpetual Capital Instruments		36,750	–
Non-controlling interests		100,016	(3,360)
		<b>1,507,594</b>	<b>1,400,176</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		1,519,948	1,403,880
Holder of Perpetual Capital Instruments		36,750	–
Non-controlling interests		100,016	(3,360)
		<b>1,656,714</b>	<b>1,400,520</b>
Earnings per share for profit attributable to owners of the Company during the year (expressed in RMB cents per share)	33		
– Basic		34.56	35.00
– Diluted		34.54	34.98

	Note	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Dividends	34	252,278	–

The notes on pages 73 to 154 are an integral part of these consolidated financial statements.



# Consolidated Statement of Changes in Equity

	Attributable to owners of the Company				Perpetual Capital Instruments RMB'000 (Note 20)	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital and premium RMB'000 (Note 18)	Other reserves RMB'000 (Note 19)	Retained earnings RMB'000	Total RMB'000			
<b>Year ended 31 December 2014</b>							
Balance at 1 January 2014	3,035,471	512,464	13,589,210	17,137,145	-	508,988	17,646,133
Comprehensive income:							
Profit for the year	-	-	1,370,828	1,370,828	36,750	100,016	1,507,594
Other comprehensive income for the year	-	149,120	-	149,120	-	-	149,120
Total comprehensive income for the year	-	149,120	1,370,828	1,519,948	36,750	100,016	1,656,714
Transactions with owners:							
Buy-back of shares of the Company	(48,960)	-	-	(48,960)	-	-	(48,960)
Share Award Scheme – Purchase of shares by the trust held for Share Award Scheme	(6,815)	-	-	(6,815)	-	-	(6,815)
– Value of employee services	-	6,975	-	6,975	-	-	6,975
Pre-IPO Share Option Scheme – Value of employee services	-	(3,858)	5,404	1,546	-	-	1,546
Issuance of Perpetual Capital Instruments	-	-	-	-	1,300,000	-	1,300,000
Distribution to holders of Perpetual capital Instruments	-	-	-	-	(34,611)	-	(34,611)
Capital contribution from non-controlling interests	-	-	-	-	-	88,500	88,500
Total transactions with owners	(55,775)	3,117	5,404	(47,254)	1,265,389	88,500	1,306,635
Appropriation to statutory reserves	-	126	(126)	-	-	-	-
Balance at 31 December 2014	2,979,696	664,827	14,965,316	18,609,839	1,302,139	697,504	20,609,482

## Consolidated Statement of Changes in Equity

	Attributable to owners of the Company				Non- controlling interests	Total equity
	Share capital and premium	Other reserves	Retained earnings	Total		
	RMB'000 (Note 18)	RMB'000 (Note 19)	RMB'000	RMB'000		
<b>Year ended 31 December 2013</b>						
Balance at 1 January 2013	3,035,471	488,132	12,515,461	16,039,064	460,376	16,499,440
Comprehensive income:						
Profit for the year	-	-	1,403,536	1,403,536	(3,360)	1,400,176
Other comprehensive income for the year	-	344	-	344	-	344
Total comprehensive income for the year	-	344	1,403,536	1,403,880	(3,360)	1,400,520
Transactions with owners:						
Share Award Scheme						
– Value of employee services	-	2,059	-	2,059	-	2,059
Pre-IPO Share Option Scheme						
– Value of employee services	-	(13,589)	18,023	4,434	-	4,434
Transfer	-	(4,780)	4,780	-	-	-
Changes in ownership interests in subsidiaries without change of control						
	-	8,481	-	8,481	9,293	17,774
Dividends (Note 34)	-	-	(320,773)	(320,773)	(11,321)	(332,094)
Capital contribution from non-controlling interests	-	-	-	-	54,000	54,000
Total transactions with owners	-	(7,829)	(297,970)	(305,799)	51,972	(253,827)
Appropriation to statutory reserves	-	31,817	(31,817)	-	-	-
Balance at 31 December 2013	3,035,471	512,464	13,589,210	17,137,145	508,988	17,646,133

The notes on pages 73 to 154 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

	Note	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	35	1,254,688	(381,755)
PRC corporate income tax paid		(408,246)	(243,407)
PRC land appreciation tax paid		(391,104)	(240,675)
Interest paid		(1,606,697)	(1,272,896)
<b>Cash used in operating activities – net</b>		<b>(1,151,359)</b>	<b>(2,138,733)</b>
<b>Cash flows from investing activities</b>			
Payments for addition of property and equipment		(534,728)	(198,414)
Payments for addition of land use rights		(330,904)	–
Payments for construction of investment properties		(2,320,063)	(962,695)
Proceeds from disposal of equipment		825	4,032
Proceeds from disposal of investment properties		35,477	132,206
Disposal of available-for-sale financial assets		14,500	–
Cash advances made to related parties		(277,560)	–
Collection of cash advances by related parties		1,971	2,022
Disposal of subsidiaries		3,780	51,450
Investments in jointly controlled entities		(429,551)	–
Collection of entrusted loans		–	270,000
Capital contribution to an associate		–	(37,000)
Purchase of available-for-sale financial assets		–	(13,995)
Interest income from loans to third parties		–	21,702
Income distribution from available-for-sale financial assets		–	3,418
<b>Cash used in investing activities – net</b>		<b>(3,836,253)</b>	<b>(727,274)</b>
<b>Cash flows from financing activities</b>			
Capital injection by non-controlling interests		88,500	54,000
Proceeds from borrowings		9,927,951	12,347,895
Repayments of borrowings		(7,795,653)	(6,949,350)
Repurchase of senior notes		(20,766)	(11,856)
(Increase)/decrease in guarantee deposits		(18,090)	110,869
Cash advances from related parties		1,502,111	774,951
Repayments of cash advances from related parties		(2,000)	(139,025)
Net proceeds from issuance of Perpetual Capital Instruments		1,300,000	–
Distribution to the holders of Perpetual Capital Instruments		(34,611)	–
Buy-back of shares of the Company		(48,960)	–
Dividends paid to owners of the Company		–	(320,773)
Dividends paid to non-controlling interests		–	(11,321)
Other cash used in financing activities		–	(2,000)
<b>Cash generated from financing activities – net</b>		<b>4,898,482</b>	<b>5,853,390</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(89,130)</b>	<b>2,987,383</b>
Cash and cash equivalents at beginning of the year	17	4,434,449	1,452,217
Effect of foreign exchange rate changes		438	(5,151)
<b>Cash and cash equivalents at end of the year</b>	<b>17</b>	<b>4,345,757</b>	<b>4,434,449</b>

The notes on pages 73 to 154 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 General information

Powerlong Real Estate Holdings Limited (the "Company") was incorporated in the Cayman Islands on 18 July 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company's principal activity is investment holding. The Company and its subsidiaries (together the "Group") is principally engaged in property development, property investment, property management, and other property development related services in the People's Republic of China (the "PRC").

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 14 October 2009.

These financial statements have been approved for issue by the board of directors (the "Board") of the Company on 17 March 2015.

These financial statements are presented on Renminbi ("RMB"), unless otherwise stated.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied in all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial asset at fair value through profit or loss, investment properties and including derivative financial instruments, which are carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of these consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in Note 4.

#### (a) Amended standards adopted by the Group

Amendment to HKAS 32	Financial instruments: Presentation – Offsetting financial assets and financial liabilities
Amendment to HKFRS 10, 12 and 27	Consolidation for investment entities
Amendment to HKAS 36	Impairment of assets on recoverable amount disclosures

The adoption of the above amended standards did not have any material impact on the consolidated financial statements except for disclosure.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### (b) *New and amended standards not relevant to the Group*

Amendment to HKFRS 39	Financial instruments: Recognition and Measurement – Novation of derivatives and the continuation of hedge accounting
HK(IFRIC) – Int 21	Levies

- (c) The following new standards and interpretations and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted by the Group:

		<b>Effective for annual periods beginning on or after</b>
Amendment to HKAS 19 (revised 2011)	Defined Benefit Plans: Employee Contributions	1 July 2014
Annual improvements 2012	2010-2012 cycle	1 July 2014
Annual improvements 2013	2011-2013 cycle	1 July 2014
HKFRS 14	Regulatory deferral accounts	1 January 2016
Amendment to HKFRS 11	Accounting for acquisitions of interest in joint operation	1 January 2016
Amendment to HKAS 16 and 38	Clarification of acceptable methods of depreciation and amortization	1 January 2016
Amendment to HKAS 16 and 41	Agriculture: bearer plants	1 January 2016
Amendment to HKAS 10 and 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
HKAS 27	Equity method in separate financial statements	1 January 2016
Annual improvements 2014	2012-2014 cycle	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception	1 January 2016
Amendments to HKAS 1	Disclosure initiative	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
HKFRS 9	Financial instruments	1 January 2018

Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted in.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### (d) *New Hong Kong Companies Ordinance (Cap. 622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

#### 2.2 Subsidiaries

##### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

##### (a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.2 Subsidiaries (continued)

##### 2.2.1 Consolidation (continued)

###### (a) *Business combinations (continued)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

###### (b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

###### (c) *Disposal of subsidiaries*

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

##### 2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Gain or losses on dilution of equity interest in associates are recognised in the statement of comprehensive income.

#### 2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.



## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.4 Joint arrangements (continued)

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

#### 2.6 Foreign currency translation

##### (a) *Functional and presentation currency*

Items included in the financial statements of each group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

##### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within 'finance income/(costs) – net'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'exchange (losses)/gains – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.6 Foreign currency translation (continued)

##### (c) *Group entities*

The results and financial positions of the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet of the group entities are translated at the closing rate at the date of that balance sheet;
- income and expenses for each consolidated statement of comprehensive income of the group entities are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate. Exchange differences arising are recognised in other comprehensive income.

#### 2.7 Property and equipment

Property and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20–40 years
Motor vehicles	4–5 years
Furniture, fitting and equipment	3–25 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the consolidated statement of comprehensive income.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.7 Property and equipment (continued)

Assets under construction are stated at historical cost less any impairment loss. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, amortisation of land use rights during the construction period, borrowing costs on qualifying assets and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

#### 2.8 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment property is carried at fair value, representing open market value determined at each balance sheet date by external valuer. Property that is being constructed or developed for future use as investment property is classified as investment property under construction. If the fair value cannot be reliably determined, the investment property under construction will be measured at cost until such time as fair value can be determined. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flows projections. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers the following factors, among others:

- The provisions of the construction contract.
- The stage of completion.
- Whether the project/property is standard (typical for the market) or non-standard.
- The level of reliability of cash inflows after completion.
- The development risk specific to the property.
- Past experience with similar constructions.
- Status of construction permits.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.8 Investment property (continued)

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land, if any, classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Changes in fair values of investment property are recognised as 'fair value gains on investment properties – net' in the consolidated statement of comprehensive income.

Where the Group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

Completed properties held for sale are transferred to investment properties when it is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount shall be recognised in profit or loss.

If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and changed directly to revaluation reserves within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation reserves, with any remaining decrease charged to the profit or loss.

#### 2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.10 Financial assets

##### 2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The loans and receivables comprise 'trade and other receivables', 'amounts due from related parties', 'restricted cash' and 'cash and cash equivalents' in the balance sheets (Note 2.14 and Note 2.15).

(c) ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(d) ***Derivatives***

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Derivatives are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

##### 2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.10 Financial assets (continued)

##### 2.10.2 Recognition and measurement (continued)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within 'Other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income within 'Other (losses)/gains – net'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

#### 2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

#### 2.12 Impairment of financial assets

##### (a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of fair value of an instrument using an observable market price.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.12 Impairment of financial assets (continued)

##### (a) *Assets carried at amortised cost (continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

##### (b) *Assets classified as available for sale*

The Group assesses at the balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

#### 2.13 Properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Development cost of property comprises cost of land use rights, construction costs, borrowing costs on qualifying assets, and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated cost to completion.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

#### 2.14 Trade and other receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.15 Cash and cash equivalents and restricted cash

Cash and cash equivalent includes cash in hand and at banks and deposits held at call with banks, other short-term highly liquid investment with original maturities of three months or less.

Bank deposits which are restricted to use are included in 'restricted cash'. Restricted cash are excluded from cash and cash equivalents in the consolidated statement of cash flows.

#### 2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new share are shown in equity as a deduction, net of tax, from the proceeds.

Where any group entity purchases the Company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to owners of the Company.

#### 2.17 Perpetual capital instruments

Perpetual capital instruments with no contracted obligation to repay its principal or to pay any distribution are classified as part of equity.

#### 2.18 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.19 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.



## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.19 Borrowings and borrowing costs (continued)

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### 2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

##### (a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### (b) *Deferred income tax Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.20 Current and deferred income tax (continued)

##### (b) *Deferred income tax (continued)*

###### *Outside basis differences*

Deferred income tax is provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

##### (c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### 2.21 Employee benefits

##### (a) *Retirement benefits*

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme"), which is a defined contribution retirement scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.21 Employee benefits (continued)

##### (b) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### 2.22 Share-based payments

##### (a) *Equity-settled share-based payment transactions*

The Group operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

##### (b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.23 Provisions and contingent liabilities

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

#### 2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the sales of properties and services income, stated net of discounts returns and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probably that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, type of transaction and the specifics of each arrangement.

##### (a) *Sales of properties*

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet as "advances from customers" under current liabilities.

##### (b) *Rental income*

Rental income of property leasing under operating leases is recognised on a straight-line basis over the term of the lease.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.24 Revenue recognition (continued)

(c) *Property management*

Revenue arising from property management is recognised in the accounting period in which the services are rendered.

(d) *Hotel operations*

Hotel revenue from room rentals, food and beverage sales and other ancillary services are recognised when the goods are delivered and services are rendered.

(e) *Retail sales*

Commission income from concessionaire sales is recognised upon sales of goods by the relevant stores.

#### 2.25 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

#### 2.26 Dividend income

Dividend income is recognised when the right to receive payment is established.

#### 2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

*The Group is the lessee*

Payments made under operating leases (net of any incentives received from the lessor), are charged to the profit or loss on a straight-line basis over the period of the lease.

*The Group is the lessor*

When assets are leased out under an operating lease, the assets are included in the consolidated balance sheet based on the nature of the assets. Lease income is recognised in the profit or loss on a straight-line basis over the period of the lease.

#### 2.28 Dividend distribution

Dividend distribution to the owners of the Company is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the owners of the Company.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (continued)

#### 2.29 Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 Financial Instrument: Recognition and Measurement are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation.

### 3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### 3.1 Financial risk factor

##### (a) Market risk

##### (i) Foreign exchange risk

The Group's businesses are principally conducted in RMB. As at 31 December 2014, major non-RMB assets and liabilities are cash and cash equivalents, restricted cash, financial assets at fair value through profit or loss, available-for-sale financial assets, other payables and borrowings, which are dominated in Hong Kong dollar ("HK\$") or US dollar ("US\$"). Fluctuation of the exchange rate of RMB against HK\$ or US\$ could affect the Group's results of operations. The Group has not entered into any forward exchange contract to hedge its exposure to foreign exchange risk.

The carrying amount of the Group's and the Company's foreign currency denominated monetary assets and liabilities at the respective balance sheet dates are as follows:

	Group 31 December		Company 31 December	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Financial assets				
– HK\$	23,251	91,303	2,077	44,653
– US\$	53,931	148,624	13,933	7,639
	<b>77,182</b>	<b>239,927</b>	<b>16,010</b>	<b>52,292</b>
Financial liabilities				
– HK\$	922,871	1,225,945	750,719	1,148,200
– US\$	4,129,016	3,385,295	4,100,601	3,367,392
	<b>5,051,887</b>	<b>4,611,240</b>	<b>4,851,320</b>	<b>4,515,592</b>

## Notes to the Consolidated Financial Statements

## 3 Financial risk management (continued)

## 3.1 Financial risk factor (continued)

## (a) Market risk (continued)

## (i) Foreign exchange risk (continued)

The following table shows the sensitivity analysis of a 1% change in RMB against the relevant foreign currencies. The sensitivity analysis includes only foreign currency denominated financial items and adjusts their translation at the year-end for a 1% change in foreign currency rates. If there is a 1% strengthened/weakened in RMB against the relevant currencies, the effect in the profit for the year is as follows:

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Increase/(decrease) in profit for the year:				
1% strengthened in RMB against the relevant currencies				
– HK\$	8,996	11,346	7,486	11,035
– US\$	40,751	32,367	40,867	33,598
	<b>49,747</b>	43,713	<b>48,353</b>	44,633
1% weakened in RMB against the relevant currencies				
– HK\$	(8,996)	(11,346)	(7,486)	(11,035)
– US\$	(40,751)	(32,367)	(40,867)	(33,598)
	<b>(49,747)</b>	(43,713)	<b>(48,353)</b>	(44,633)

## (ii) Cash flow and fair value interest rate risk

The Group's interest rate risks arise from long-term borrowings. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. Borrowings obtained at variable rates expose the Group and the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings at variable rates expose the Group to cash flows interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, for the year ended 31 December 2014, if interest rates on borrowings at variable rates had been 100 basis point higher/lower with all other variables held constant, interest charges for the year would increase/decrease by RMB89,530,000 (2013: RMB87,312,000), most of which have been capitalised in qualified assets.

## Notes to the Consolidated Financial Statements

### 3 Financial risk management (continued)

#### 3.1 Financial risk factor (continued)

##### (b) *Credit risk*

The Group has no concentrations on credit risk. Cash transactions are limited to high-credit-quality institutions. The extent of the Group's credit exposure is represented by the aggregate balance of cash at bank and financial institutions and trade and other receivables.

For banks and financial institutions, only those with sound credit ratings are accepted. The receivables from related parties are companies owned by the same ultimate shareholder of the Group of which the possibility of bad debt is low.

For trade receivables arisen from sales of properties, the Group closely monitors repayment progress of the customers in accordance with the terms as specified in the enforceable contracts. The Group has set up policies to ensure follow-up action is taken to recover overdue debts. The Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties for an amount up to 50% to 70% of the total purchase price of the properties. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the property sales proceeds received from the customers and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is minimal. Detailed disclosure of these guarantees is made in Note 36.

For trade receivables arisen from lease of properties, the Group has policies in place to ensure that rental contracts are entered into only with lessees with an appropriate credit history, and the Group monitors the credit quality of receivables on an ongoing basis. Deposits refundable to tenants may be withheld by the Group in part or in whole if receivables due from the tenant are not settled or in case of other breaches of contract. The Group also regularly reviews the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance, and guarantees provided to third parties. The Group's exposure to credit risk arising from trade and other receivables is set out in Note 11.

##### (c) *Liquidity risk*

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing, including proceeds from pre-sale of properties, committed credit facilities, short-term and long-term borrowings. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through available sources of financing.

The Group has a number of alternative plans to mitigate the potential impacts on anticipated cash flows should there be significant adverse changes in economic environment. These include control on investment in land bank, adjusting project development timetable to adapt the changing local real estate market environment, implementing cost control measures, promotion of sales of completed properties, accelerating sales with more flexible pricing. The Group will pursue such options basing on its assessment of relevant future costs and benefits.



## Notes to the Consolidated Financial Statements

## 3 Financial risk management (continued)

## 3.1 Financial risk factor (continued)

## (c) Liquidity risk (continued)

The table below set out the Group's financial liabilities by relevant maturity grouping at each balance sheet date. Trade and other payables due within 12 months equal their carrying balances, as the impact of discounting is not significant. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
<b>The Group</b>					
At 31 December 2014					
Borrowings (Note a)	5,236,596	7,304,651	6,406,500	2,055,889	21,003,636
Trade and other payables (Note b)	7,479,196	–	–	–	7,479,196
Derivative financial instruments	–	27,043	54,135	–	81,178
Guarantees for borrowings of joint ventures	502,531	1,298,673	92,540	–	1,893,744
Financial guarantee contracts (Note (c))	6,462,924	–	–	–	6,462,924
	<b>19,681,247</b>	<b>8,630,367</b>	<b>6,553,175</b>	<b>2,055,889</b>	<b>36,920,678</b>
At 31 December 2013					
Borrowings (Note a)	5,895,079	6,463,430	5,129,330	2,803,932	20,291,771
Trade and other payables (Note b)	4,653,628	–	–	–	4,653,628
Guarantees for borrowings of a joint venture	76,329	76,329	1,032,471	–	1,185,129
Financial guarantee contracts (Note (c))	4,711,027	–	–	–	4,711,027
	<b>15,336,063</b>	<b>6,539,759</b>	<b>6,161,801</b>	<b>2,803,932</b>	<b>30,841,555</b>
<b>The Company</b>					
At 31 December 2014					
Borrowings (Note a)	2,091,424	2,810,979	2,862,815	–	7,765,218
Other payables and accruals	55,000	–	–	–	55,000
Derivative financial instruments	–	27,043	54,135	–	81,178
Amounts due to subsidiaries	582,033	–	–	–	582,033
Guarantees for borrowings of subsidiaries	839,080	1,218,495	609,262	–	2,666,837
	<b>3,567,537</b>	<b>4,056,517</b>	<b>3,526,212</b>	<b>–</b>	<b>11,150,266</b>
At 31 December 2013					
Borrowings (Note a)	2,650,683	3,076,154	1,650,974	–	7,377,811
Other payables and accruals	42,562	–	–	–	42,562
Amounts due to subsidiaries	619,479	–	–	–	619,479
Guarantees for borrowings of subsidiaries	916,104	868,424	724,040	–	2,508,568
	<b>4,228,828</b>	<b>3,944,578</b>	<b>2,375,014</b>	<b>–</b>	<b>10,548,420</b>

## Notes to the Consolidated Financial Statements

### 3 Financial risk management (continued)

#### 3.1 Financial risk factor (continued)

##### (c) Liquidity risk (continued)

Notes:

- a. Interest on borrowings is calculated on borrowings held as at 31 December 2014 and 2013. Floating-rate interest is estimated using the current interest rate as at 31 December 2014 and 2013 respectively.
- b. It represents payables excluding salaries payables and other taxes payables.
- c. The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments (Note 36).

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents (Note 17) and less guarantee deposits for bank borrowings included in restricted cash (Note 16(c)). Total borrowings comprise senior notes (Note 21), bank borrowings (Note 21), other borrowings (Note 21) and borrowings under sale and lease back agreement (Note 21). Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2014 and 2013 are as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Total borrowings (Note 21)	18,584,984	16,430,159
Less: cash and cash equivalents (Note 17)	(4,345,757)	(4,434,449)
Less: guarantee deposits for bank borrowings (Note 16(c))	(135,023)	(116,933)
Net debt	14,104,204	11,878,777
Total equity	20,609,482	17,646,133
Total capital	34,713,686	29,524,910
Gearing ratio	40.6%	40.2%

The slightly increase in the gearing ratio during 2014 resulted primarily from the additional bank and other borrowings.

## Notes to the Consolidated Financial Statements

### 3 Financial risk management (continued)

#### 3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at 31 December 2014 and 2013. See Note 8 for disclosures of the investment properties that are measured at fair value.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>At 31 December 2014</b>				
Financial assets:				
Financial assets at fair value through profit or loss	1,500	–	–	1,500
Available-for-sale financial assets (Note 13)	–	–	16,042	16,042
	<b>1,500</b>	<b>–</b>	<b>16,402</b>	<b>17,542</b>
Financial liabilities:				
Derivative financial instruments (Note 22)	–	81,178	–	81,178
<b>At 31 December 2013</b>				
Financial assets:				
Financial assets at fair value through profit or loss	14,600	–	–	14,600
Available-for-sale financial assets (Note 13)	–	14,500	16,301	30,801
Derivative financial instruments (Note 22)	–	11,406	–	11,406
	14,600	25,906	16,301	56,807

There were no transfers between levels during the year.

## Notes to the Consolidated Financial Statements

### 3 Financial risk management (continued)

#### 3.3 Fair value estimation (continued)

##### (a) *Financial instruments in level 1*

The fair value of the Group's financial assets at fair value through profit or loss as at 31 December 2014 and 2013, which are listed securities in Hong Kong, is based on their quoted market prices at the balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These financial assets at fair value through profit or loss are included in level 1. The quoted market price used for financial assets held by the Group is the current bid price.

##### (b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

##### (c) *Financial instruments in level 3*

The fair value of financial instrument included in level 3 is disclosed in Note 13(a).

### 4 Critical accounting estimates and judgements

Estimates and judgements used in preparing these consolidated financial statements are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (a) **Income taxes and deferred taxation**

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

## Notes to the Consolidated Financial Statements

### 4 Critical accounting estimates and judgements (continued)

#### (b) PRC land appreciation taxes

The Group is subject to land appreciation taxes in the PRC. However, the implementation and settlement of these taxes varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its PRC land appreciation taxes calculation and payments with most of local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related taxes. The Group recognised these PRC land appreciation taxes based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the taxation and tax provisions in the years in which such taxes have been finalised with local tax authorities.

#### (c) Provisions for properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and properties held for sale according to their net realisable value based on the realisability of these properties. Net realisable value for properties under development is determined by reference to management's estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion (including land costs). Net realisable value for properties held for sale is determined by reference to management's estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses. Based on management's best estimates, there is no material impairment for properties under development and properties held for sale at 31 December 2014.

#### (d) Provision for property and equipment

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of property and equipment have been determined based on value-in-use calculations, taking into account latest market information and past experience. These calculation and valuations require the use of judgements and estimates.

#### (e) Fair value of investment properties

The Group assesses the fair value of its completed investment properties and investment properties under construction based on assessments determined by an independent and professional qualified valuer.

The best evidence of fair value of completed investment properties is current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) 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;
- (ii) 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
- (iii) discounted cash flows 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 rents 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.

## Notes to the Consolidated Financial Statements

### 4 Critical accounting estimates and judgements (continued)

#### (e) Fair value of investment properties (continued)

Investment properties under construction are carried at fair value when is considered to be reliably measurable. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers certain factors, please refer to Note 2.8.

Management, after consulting independent qualified valuer, considers that the fair value of investment properties under construction as at 31 December 2014 can be measured at a reasonable accurate level. Therefore, these investment properties under construction as at 31 December 2014 were measured at fair value.

The fair value gains from completed investment properties and investment properties under construction are disclosed in Note 8.

### 5 Segment information

The executive directors, as the chief operating decision-makers (“CODM”) of the Group review the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into four business segments: property development, property investment, property management services and other property development related services. As the CODM considers most of the Group’s consolidated revenue and results are attributable to the market in the PRC and the Group’s consolidated assets are substantially located in the PRC, no geographical information is presented.

Revenue consists of sales of properties, rental income of investment properties, income of property management services and other property development related services. Revenue of the year consists of the following:

	Year ended 31 December	
	2014 RMB’000	2013 RMB’000
Sales of properties	8,265,185	6,243,864
Rental income of investment properties	444,772	349,217
Income of property management services	467,502	351,903
Income of other property development related services	485,536	311,954
	<b>9,662,995</b>	<b>7,256,938</b>

## Notes to the Consolidated Financial Statements

## 5 Segment information (continued)

The segment results and other segment items included in the profit for the year ended 31 December 2014 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Gross segment revenue	8,265,185	444,772	514,931	485,536	-	9,710,424
Inter-segment revenue	-	-	(47,429)	-	-	(47,429)
Revenue	8,265,185	444,772	467,502	485,536	-	9,662,995
Segment results	1,742,932	827,010	718	30,162	-	2,600,822
Other losses – net						(124,963)
Share of loss of investments accounted for using the equity method (Note 15)						(709)
Unallocated operating costs						(285,610)
Finance costs – net (Note 30)						(30,606)
Profit before income tax						2,158,934
Income tax expense						(651,340)
Profit for the year						1,507,594
Depreciation (Note 6)	18,901	-	5,118	108,646	-	132,665
Amortisation of land use rights recognised as expenses (Note 7)	-	-	-	15,846	-	15,846
Fair value gains on investment properties – net (Note 8)	-	599,325	-	-	-	599,325

## Notes to the Consolidated Financial Statements

## 5 Segment information (continued)

The segment results and other segment items included in the profit for the year ended 31 December 2013 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Gross segment revenue	6,243,864	349,217	392,963	311,954	–	7,297,998
Inter-segment revenue	–	–	(41,060)	–	–	(41,060)
Revenue	6,243,864	349,217	351,903	311,954	–	7,256,938
Segment results	1,275,590	716,817	1,313	(60,644)	(2,633)	1,930,443
Other gains – net						95,370
Share of profit of investments accounted for using the equity method (Note 15)						108,365
Unallocated operating costs						(191,611)
Finance income – net (Note 30)						121,023
Profit before income tax						2,063,590
Income tax expense						(663,414)
Profit for the year						1,400,176
Depreciation (Note 6)	14,344	–	2,171	93,936	–	110,451
Amortisation of land use rights recognised as expenses (Note 7)	–	–	–	13,863	–	13,863
Fair value gains on investment properties – net (Note 8)	–	530,672	–	–	–	530,672



## Notes to the Consolidated Financial Statements

## 5 Segment information (continued)

Segment assets, liabilities and interests in joint ventures and an associate as at 31 December 2014 and capital expenditure for the year then ended are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	28,042,279	25,386,731	784,624	5,319,214	(4,053,115)	55,479,733
Other assets						1,673,994
Total assets						57,153,727
Segment liabilities	10,489,800	1,267,592	576,018	1,258,796	(4,053,115)	9,539,091
Other liabilities						27,005,154
Total liabilities						36,544,245
Capital expenditure	241,162	3,526,739	3,514	826,994	-	4,598,409
Interests in joint ventures	1,512,375	-	-	-	-	1,512,375
Interests in an associate	36,179	-	-	-	-	36,179

Segment assets, liabilities and interests in a joint venture as at 31 December 2013 and capital expenditure for the year then ended are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	26,338,637	20,587,250	398,482	2,990,797	(2,881,188)	47,433,978
Other assets						1,068,939
Total assets						48,502,917
Segment liabilities	7,815,385	389,283	366,803	2,092,924	(2,881,188)	7,783,207
Other liabilities						23,073,577
Total liabilities						30,856,784
Capital expenditure	25,539	983,888	52,982	191,395	-	1,253,804
Interest in a joint venture	1,112,150	-	-	-	-	1,112,150
Interest in an associate	36,822	-	-	-	-	36,822

## Notes to the Consolidated Financial Statements

## 5 Segment information (continued)

Segment assets are reconciled to total assets as follows:

	31 December	
	2014 RMB'000	2013 RMB'000
Segment assets	55,479,733	47,433,978
Other assets		
– Prepaid taxes	300,334	241,216
– Deferred income tax assets	380,313	203,065
– Unallocated cash and cash equivalents and restricted cash	550,108	570,208
– Other receivables from related parties (Note 38(d))	298,936	23,347
– Unallocated property and equipment	81,221	8,049
– Other corporate assets	63,082	23,054
<b>Total assets</b>	<b>57,153,727</b>	<b>48,502,917</b>

Segment liabilities are reconciled to total liabilities as follows:

	31 December	
	2014 RMB'000	2013 RMB'000
Segment liabilities	9,539,091	7,783,207
Other liabilities		
– Current income tax liabilities	2,194,391	2,183,267
– Deferred income tax liabilities	3,314,613	3,187,587
– Current borrowings	4,290,941	4,575,423
– Non-current borrowings	14,294,043	11,854,736
– Other payables to related parties (Note 38(d))	2,667,462	1,167,351
– Other corporate liabilities	243,704	105,213
<b>Total liabilities</b>	<b>36,544,245</b>	<b>30,856,784</b>

Sales between segments are carried out in accordance with the terms of the underlying agreements. The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated statement of comprehensive income.

The amounts provided to the CODM with respect to total assets and liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment.

Segment assets consist primarily of property and equipment, land use rights, investment properties, properties under development, completed properties held for sale, receivables and cash and cash equivalents.

Segment liabilities consist of operating liabilities.

Capital expenditure comprises additions to property and equipment (Note 6), land use rights (Note 7) and investment properties (Note 8).

## Notes to the Consolidated Financial Statements

## 6 Property and equipment – Group

	Assets under construction RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Furniture, fitting and equipment RMB'000	Total RMB'000
<b>Year ended 31 December 2014</b>					
Opening net book amount	152,981	1,421,911	22,809	96,500	1,694,201
Additions	535,560	25,278	10,537	95,450	666,825
Revaluation reserves recognised in other comprehensive income (Note (a))	–	160,334	–	–	160,334
Transfers to investment properties (Note (a) and Note 8)	–	(489,204)	–	–	(489,204)
Disposals	–	–	(604)	(221)	(825)
Depreciation	–	(82,873)	(12,481)	(37,311)	(132,665)
Closing net book amount	688,541	1,035,446	20,261	154,418	1,898,666
<b>At 31 December 2014</b>					
Cost	688,541	1,231,935	68,835	294,249	2,283,560
Accumulated depreciation	–	(196,489)	(48,574)	(139,831)	(384,894)
Net book amount	688,541	1,035,446	20,261	154,418	1,898,666
<b>Year ended 31 December 2013</b>					
Opening net book amount	138,502	1,299,575	24,470	116,419	1,578,966
Additions	176,615	29,184	9,075	14,844	229,718
Transfer	(162,136)	162,136	–	–	–
Disposals	–	(1,720)	(621)	(1,691)	(4,032)
Depreciation	–	(67,264)	(10,115)	(33,072)	(110,451)
Closing net book amount	152,981	1,421,911	22,809	96,500	1,694,201
<b>At 31 December 2013</b>					
Cost	152,981	1,595,193	63,513	202,690	2,014,377
Accumulated depreciation	–	(173,282)	(40,704)	(106,190)	(320,176)
Net book amount	152,981	1,421,911	22,809	96,500	1,694,201

- (a) During the year ended 31 December 2014, certain owner-occupied properties and related land use rights were transferred to investment properties due to change in use. The difference between fair value and carrying amounts of these properties and land use rights at the date of change in use is recognised on other comprehensive income or other losses, where applicable.

## Notes to the Consolidated Financial Statements

**6 Property and equipment – Group (continued)**

Depreciation charges were included in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Cost of sales	91,504	80,913
Selling and marketing costs	2,215	1,689
Administrative expenses	38,946	27,849
	<b>132,665</b>	<b>110,451</b>

As at 31 December 2014, properties and equipment with net book amounts totalling RMB1,360,154,000 (2013: RMB820,180,000), were pledged as collateral for the Group's borrowings (Note 21).

Certain equipment of the Group with the net book amount of RMB77,079,000 (2013: RMB81,808,000) where the Group was a lessee were held under non-cancellable finance lease agreement. The lease terms are 3 years (Note 21).

Borrowing costs of RMB121,825,000 (2013: RMB13,184,000) have been capitalised in assets under construction for the year ended 31 December 2014.

The capitalisation rate of borrowings for the year ended 31 December 2014 was 8.57% (2013: 9.25%).

**7 Land use rights – Group**

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Opening net book amount	569,862	543,527
Additions	404,845	40,198
Revaluation reserves recognised in other comprehensive income (Note 6(a))	38,838	–
Transfer to investment properties (Note 6(a))	(200,561)	–
Amortisation charges	(15,846)	(13,863)
Ending net book amount	<b>797,138</b>	<b>569,862</b>

## Notes to the Consolidated Financial Statements

## 7 Land use rights – Group (continued)

	31 December	
	2014 RMB'000	2013 RMB'000
Land use rights are outside Hong Kong, held on leases of:		
Between 10 to 50 years	<b>797,138</b>	569,862

Land use rights comprise cost of acquiring rights to use certain land, which are all located in the PRC, mainly for hotel buildings and other self-use buildings over fixed periods.

As at 31 December 2014, land use rights of RMB274,852,000 (2013: RMB164,599,000) were pledged as collateral for the Group's borrowings (Note 21).

## 8 Investment properties – Group

	Completed investment properties RMB'000	Investment properties under construction RMB'000	Total RMB'000
<b>Year ended 31 December 2014</b>			
At 1 January 2014	18,433,700	1,156,630	19,590,330
Additions	201,779	3,324,960	3,526,739
Fair value (loss)/gains – net	(162,254)	761,579	599,325
Transfers from property and equipment and land use rights (Note 6, 7)	689,765	–	689,765
Disposals	(24,563)	–	(24,563)
At 31 December 2014	<b>19,138,427</b>	<b>5,243,169</b>	<b>24,381,596</b>
Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	(162,254)	761,579	599,325

## Notes to the Consolidated Financial Statements

## 8 Investment properties – Group (continued)

	Completed investment properties RMB'000	Investment properties under construction RMB'000	Total RMB'000
<b>Year ended 31 December 2013</b>			
At 1 January 2013	16,196,318	1,951,526	18,147,844
Additions	191,960	791,928	983,888
Transfers	1,607,930	(1,607,930)	–
Fair value gains – net	509,566	21,106	530,672
Disposals	(72,074)	–	(72,074)
At 31 December 2013	18,433,700	1,156,630	19,590,330
Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	505,558	21,106	526,664

- (a) The following amounts have been recognised in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Rental income (Note 5)	444,772	349,217
Direct operating expenses arising from investment properties that generate rental income	(122,908)	(132,259)
Direct operating expenses arising from investment properties that do not generate rental income	(26,363)	(20,972)

Investment properties as at 31 December 2014 are held in the PRC on leases between 10 to 50 years (2013: same).

Borrowing costs of RMB234,734,000 (2013: RMB96,816,000) have been capitalised in investment properties under construction for the year ended 31 December 2014. The capitalisation rate of borrowings for the year ended 31 December 2014 was 8.57% (2013: 9.25%).

As at 31 December 2014, investment properties of RMB20,554,430,000 (2013: RMB16,753,735,000) were pledged as collateral for the Group's borrowings (Note 21).

As at 31 December 2014, investment properties of RMB132,538,000 (2013: RMB132,538,000) is affiliated by certain equipment where the Group is a lessee under non-cancellable sales and lease back agreement (Note 21).

Investment properties are shopping malls mainly located in Henan Province, Fujian Province, Shandong Province, Jiangsu Province, Anhui Province, Shanghai and Chongqing. The fair value of the investment properties are expected to be realised through rental income.

## Notes to the Consolidated Financial Statements

### 8 Investment properties – Group (continued)

#### (i) Fair value hierarchy

An independent valuation of the Group's completed investment properties and certain investment properties under construction was performed by the valuer, Savills Valuation and Professional Services Limited, to determine the fair value of the investment properties as at 31 December 2014. The revaluation gains or losses are included in 'Fair value gains on investment properties – net' in the statement of comprehensive income.

As at 31 December 2014, as certain of significant inputs used in the determination of fair value of investment properties are derivative from unobservable market data, the fair value of all investment properties of the Group are included in level 3 of the fair value measurement hierarchy (Note 2.8).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. No transfers in or out of fair value hierarchy levels during the year.

#### (ii) Valuation processes of the Group

The Group's investment properties were valued at 31 December 2014 by independent professionally qualified valuer who holds a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use.

The Group's finance department includes a team that review the valuations performed by the independent valuer for financial reporting purposes. This team reports to the senior management of the Group. Discussions of valuation processes and results are held between the management and valuer at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2014, the fair values of the properties have been determined by Savills Valuation and Professional Services Limited.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

#### (iii) Valuation techniques

The direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

Fair values of completed properties are generally derived using the term and reversion method. This method is based on the tenancy agreements as at the respective valuation dates. The rental income derived within the tenancy agreements are discounted by adopting term yields and the potential reversionary income are discounted by adopting appropriate reversion yields for the period beyond the rental period in the tenancy agreements. Potential reversionary income and the reversion yields are derived from analysis prevailing market rents and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

## Notes to the Consolidated Financial Statements

## 8 Investment properties – Group (continued)

## (iii) Valuation techniques (continued)

Fair values of the investment properties under development are generally derived using the residual method. This valuation method is essentially a means of valuing the land by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completed as at the date of valuation.

The Group has also used the sale comparison approach by making reference to the sales transactions or asking price evidences of comparable properties as available in the market to cross check the valuation result.

There were no changes to the valuation techniques during the year. Information about fair value measurements using significant unobservable inputs (level 3) is as follows:

	Fair value at 31 December 2014 RMB'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	19,138,427	Term and reversionary method	Term yields	3.5%-7.5%	The higher the term yields, the lower the fair value
			Reversion yields	4.5%-8%	The higher the reversion yields, the lower the fair value
			Market rents(RMB/ square meter/month)	73-346	The higher the market rents, the higher the fair value
Investment properties under construction	5,243,169	Residual method	Market rents(RMB/ square meter/month)	69-156	The higher the market rents, the higher the fair value
			Market yields	5.0%-6.5%	The higher the market yields, the lower the fair value
			Budgeted construction costs to incurred (RMB/sq.m)	2,983-4,134	The higher the budgeted construction costs to incurred, the lower the fair value
			Developer's profit (%)	2%-10%	The higher the developer's profit, the lower the fair value



## Notes to the Consolidated Financial Statements

8 Investment properties – Group (continued)  
 (iii) Valuation techniques (continued)

	Fair value at 31 December 2013 RMB'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	18,433,700	Term and reversionary method	Term yields	3.5%–7.5%	The higher the term yields, the lower the fair value
			Reversion yields	5.5%–8%	The higher the reversion yields, the lower the fair value
			Market rents (RMB/square meter/month)	79–346	The higher the market rents, the higher the fair value
Investment properties under construction	1,156,630	Residual method	Market rents (RMB/square meter/month)	90–140	The higher the market rents, the higher the fair value
			Market yields	5.5%–6.5%	The higher the market yields, the lower the fair value
			Budgeted construction costs to incurred (RMB/sq.m)	2,559-3,071	The higher the budgeted construction costs to incurred, the lower the fair value
			Developer's profit (%)	10%-15%	The higher the developer's profit, the lower the fair value

There are inter-relationships between unobservable inputs. For investment property under construction, increases in construction costs that enhance the property's features may result in an increase of future rental values. An increase in future rental income may be linked with higher costs. If the remaining lease term increases, the yield may decrease.

## Notes to the Consolidated Financial Statements

## 9 Properties under development – Group

	31 December	
	2014 RMB'000	2013 RMB'000
Properties under development include:		
– Construction costs and capitalised expenditures	3,942,009	2,863,981
– Interests capitalised	2,119,465	2,097,592
– Land use rights	7,607,144	6,409,437
	<b>13,668,618</b>	11,371,010
Land use rights:		
Outside Hong Kong, held on leases of:		
– Over 50 years	2,102,250	3,622,157
– Between 10 to 50 years	5,504,894	2,787,280
	<b>7,607,144</b>	6,409,437

The properties under development are all located in the PRC and expected to be completed within an operating cycle, most of which are expected to be completed within 12 months.

As at 31 December 2014, properties under development of approximately RMB5,102,438,000 (2013: RMB4,493,367,000) were pledged as collateral for the Group's borrowings (Note 21).

The capitalisation rate of borrowings for the year ended 31 December 2014 was 8.57% (2013: 9.25%).

## 10 Completed properties held for sale – Group

The completed properties held for sale are all located in the PRC.

As at 31 December 2014, completed properties held for sale of approximately RMB2,039,943,000 (2013: RMB1,132,059,000) were pledged as collateral for the Group's borrowings (Note 21).

## 11 Trade and other receivables – Group

	31 December	
	2014 RMB'000	2013 RMB'000
Trade receivables (Note (a))	1,214,071	1,113,914
– Related parties (Note 38(d))	38,395	53,116
– Third parties	1,175,676	1,060,798
Less: provision for impairment of trade receivables (Note (a))	(26,558)	(11,735)
Trade receivables – net	1,187,513	1,102,179
Deposits for acquisition of land use rights	41,600	376,518
Other receivables from:	967,614	510,690
– Related parties (Note 38(d))	298,936	23,347
– Third parties	668,678	487,343
	<b>2,196,727</b>	1,989,387

## Notes to the Consolidated Financial Statements

## 11 Trade and other receivables – Group (continued)

- (a) Trade receivables are mainly derived from sales of properties and rental income. Sales proceeds and rental fee are paid in accordance with the terms of the related sales and purchase agreements and rental contracts. As at 31 December 2014 and 2013, the ageing analysis of trade receivables of the Group based on billing date were as follows:

	31 December	
	2014 RMB'000	2013 RMB'000
Not due	347,694	342,009
Within 90 days	533,945	377,421
Over 90 days	332,432	394,484
	<b>1,214,071</b>	<b>1,113,914</b>

As at 31 December 2014, trade receivables of RMB37,741,000 (2013: RMB70,823,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty. The overdue amounts can be recovered as the Group is entitled to take over legal title and possession of underlying properties for re-sales.

	31 December	
	2014 RMB'000	2013 RMB'000
Over 90 days	37,741	70,823

As of 31 December 2014, trade receivables of RMB37,553,000 were impaired (2013: RMB15,531,000) and provision of RMB26,558,000 were provided (2013: RMB11,735,000). The individually impaired receivables mainly relate to certain lessees of the Group's investment properties, which are in unexpectedly difficult economic situations.

Movements on the provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
At 1 January	11,735	19,192
Provision for receivables impairment	15,958	2,694
Receivables written off during the year as uncollectible	(1,135)	(10,151)
At 31 December	<b>26,558</b>	<b>11,735</b>

- (b) As at 31 December 2014 and 2013, the fair value of trade and other receivables approximated their carrying amounts.
- (c) Trade and other receivables are interest free. The Group's trade and other receivables are denominated in RMB. Except for those disclosed in Note 11(a), no material trade and other receivables were impaired or past due as at 31 December 2014 and 2013.
- (d) The maximum exposure to credit risk at the reporting date was the carrying value of each class of receivables after deducting any impairment allowance and guarantees provided to third parties.

## Notes to the Consolidated Financial Statements

## 12 Prepayments – Group

	31 December	
	2014 RMB'000	2013 RMB'000
Acquisition of land use rights (Note (a))	780,305	3,249,109
Construction materials – third parties	72,069	54,952
	<b>852,374</b>	<b>3,304,061</b>

- (a) Payments on land acquisitions will be made in accordance with the payment terms as stipulated in the land acquisition contracts. The relevant land use rights certificates have not been obtained as at 31 December 2014. The land acquisition costs which are contracted but not provided for are included in commitments (Note 37(a)).

## 13 Available-for-sale financial assets – Group

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Opening amounts as at 1 January	30,801	16,462
Additions	–	13,995
Disposals	(14,500)	–
Revaluation (losses)/gains – net	(259)	344
Closing amounts as at 31 December	<b>16,042</b>	<b>30,801</b>

Available-for-sale financial assets include the following:

	31 December	
	2014 RMB'000	2013 RMB'000
Unlisted securities:		
– Unlisted private trust fund denominated in HK\$ (Note (a))	16,042	16,301
– Wealth management product denominated in RMB	–	14,500
	<b>16,042</b>	<b>30,801</b>

- (a) The fair value of unlisted private trust fund is based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the private trust fund.

The maximum exposure to credit risk at the reporting date is the carrying value of the unlisted private trust fund classified as available-for-sale financial assets. There are no commitment and contingent liabilities relating to the Group's interests in the available-for-sale financial assets.

These financial assets were not past due or impaired as of 31 December 2014 and 2013.

## Notes to the Consolidated Financial Statements

## 14 Interests in and amounts due from/(to) subsidiaries – Company

## (a) Investments in and amounts due from/(to) subsidiaries

	31 December	
	2014 RMB'000	2013 RMB'000
<b>Non-current portions:</b>		
Investments at cost – unlisted shares	410,005	410,005
Deemed capital contributions arising from share-based compensation	78,251	69,730
Amounts due from subsidiaries	5,810,177	5,810,177
	<b>6,298,433</b>	<b>6,289,912</b>
<b>Current portions:</b>		
Amounts due from subsidiaries	5,173,948	3,664,512
Amounts due to subsidiaries	(582,033)	(619,479)
	<b>4,591,915</b>	<b>3,045,033</b>

Investments in Group undertakings are recorded at cost, which are the fair value of the consideration paid.

The deemed capital contribution relating to share based payment relates to certain shares and share options granted by the Company to employees of subsidiary undertakings in the Group. Refer to Note 19 for further details on the Group's share-based compensation plans.

The amounts due from subsidiaries included in non-current portions are unsecured, interest-free and the Company does not expect repayment in the foreseeable future.

The amounts due from/(to) subsidiaries included under current portions are unsecured, interest-free and repayable on demand.

- (b) The non-controlling interests in respect of each subsidiary are not material to the Group.

## Notes to the Consolidated Financial Statements

## 15 Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	31 December	
	2014 RMB'000	2013 RMB'000
Non-current portion:		
Investments in joint ventures	1,512,375	1,112,150
Investments in associate	36,179	36,822
	<b>1,548,554</b>	<b>1,148,972</b>
Current portion (Note 38(d)):		
Amounts due to an associate	(40,000)	(42,000)
Amounts due to joint ventures	(2,192,759)	(1,014,706)
Amounts due from a joint venture	277,560	–
	<b>(1,955,199)</b>	<b>(1,056,706)</b>

Amounts due to an associate and joint ventures are unsecured, interest-free and repayable on demand.

The (loss)/profit recognised in the statement of comprehensive income are as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Joint venture (Note (a))	(66)	108,583
Associate (Note (b))	(643)	(218)
	<b>(709)</b>	<b>108,365</b>

## (a) Joint ventures

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
At 1 January	1,112,150	1,012,423
Addition	429,551	–
Share of (loss)/profit – net	(66)	108,583
Elimination of unrealised profits	(29,260)	(8,856)
At 31 December	<b>1,512,375</b>	<b>1,112,150</b>

## Notes to the Consolidated Financial Statements

## 15 Investments accounted for using the equity method (continued)

## (a) Joint ventures (continued)

## (i) Nature of investment in the joint ventures 2014 and 2013

Name of entity	Place of business/ country of incorporation	% of ownership interest	Measurement method
2014:			
Tianjin Powerlong Jinjun Real Estate Co., Ltd. ("Tianjin Jinjun") 天津寶龍金駿房地產開發有限責任公司	PRC	65%	Equity
Powerlong Golden Wheel Coral Company Limited* 寶龍金輪珊瑚有限公司	BVI	51%	Equity
Xiamen Powerlong Industry Co., Ltd. 廈門寶龍實業有限公司	PRC	51%	Equity
Baohui Property (Hong Kong) Holdings Co., Ltd.* 寶匯地產(香港)控股有限公司	Hong Kong	60%	Equity
Shanghai Powerlong Zhanyao Enterprises Development Limited* 上海寶龍展耀企業發展有限公司	PRC	45.9%	Equity
2013:			
Tianjin Jinjun	PRC	65%	Equity

\* These joint ventures are small private groups, which comprise several subsidiaries.

The joint ventures listed above are private companies and there is no quoted market price available for its shares and has share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also its principal place of business.

## (ii) Commitments and contingent liabilities in respect of the joint ventures

	31 December	
	2014 RMB'000	2013 RMB'000
Proportionate interest of commitments	748,320	368,776
Proportionate interest of financial guarantee contracts	43,569	38,230

There are no other contingent liabilities relating to the Group's interest in the joint ventures, and no other contingent liabilities of the joint ventures themselves.

## Notes to the Consolidated Financial Statements

## 15 Investments accounted for using the equity method (continued)

## (a) Joint ventures (continued)

## (iii) Summarised financial information for the joint ventures

Set out below are the summarised financial information for the joint ventures which are accounted for using the equity method.

*Summarised balance sheet:*

	31 December			
	2014			2013
	Tianjin Jinjun RMB'000	Others RMB'000	Total RMB'000	Total RMB'000
<b>Assets</b>				
Current assets	3,302,056	2,298,279	5,600,335	2,999,311
Non-current assets	973,568	826,165	1,799,733	1,081,521
<b>Total assets</b>	<b>4,275,624</b>	<b>3,124,444</b>	<b>7,400,068</b>	<b>4,080,832</b>
<b>Liabilities</b>				
Current liabilities	(1,442,659)	(981,138)	(2,423,797)	(1,273,034)
Non-current liabilities	(1,155,282)	(1,373,000)	(2,528,282)	(1,147,902)
<b>Total liabilities</b>	<b>(2,597,941)</b>	<b>(2,354,138)</b>	<b>(4,952,079)</b>	<b>(2,420,936)</b>
<b>Net assets</b>	<b>1,677,683</b>	<b>770,306</b>	<b>2,447,989</b>	<b>1,659,896</b>

As at 31 December 2014, Tianjin Jinjun has cash and cash equivalents amounting to RMB77,667,000 (2013: RMB84,956,000). The total financial liabilities excluding trade payables in Tianjin Jinjun is RMB2,116,946,000 (2013: RMB1,273,034,000).

*Summarised statement of comprehensive income:*

	Year ended 31 December			
	2014			2013
	Tianjin Jinjun RMB'000	Others RMB'000	Total RMB'000	Total RMB'000
Revenue	384,127	–	384,127	313,870
Cost of goods sold	(313,737)	–	(313,737)	(222,164)
Fair value gains from investment properties	24,198	–	24,198	102,276
Interest income	343	5	348	1,082
Interest expense	(112)	(730)	(842)	(40)
Profit/(loss) from continuing operations before tax	72,277	(44,521)	27,756	175,838
Income tax expense	(54,490)	–	(54,490)	(72,018)
Post-tax profit/(loss) from continuing operations	17,787	(44,521)	(26,734)	103,820
Other comprehensive income	–	–	–	–
<b>Total comprehensive income</b>	<b>17,787</b>	<b>(44,521)</b>	<b>(26,734)</b>	<b>103,820</b>
<b>Dividends received from joint ventures</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

There are no material differences in accounting policies between the Group and joint ventures.



## Notes to the Consolidated Financial Statements

## 15 Investments accounted for using the equity method (continued)

## (a) Joint ventures (continued)

(iv) *Reconciliation of summarised financial information*

Reconciliation of the summarised financial information presented to the carrying amounts of the Group interests in joint ventures.

	Year ended 31 December			
	Tianjin Jinjun RMB'000	2014		2013
		Others RMB'000	Total RMB'000	Total RMB'000
Opening net assets as at 1 January	1,659,896	–	1,659,896	1,556,076
Addition	–	814,827	814,819	–
Profit/(loss) for the year	17,787	(44,521)	(26,734)	103,820
Other comprehensive income	–	–	–	–
Closing net assets as at 31 December	1,677,683	770,306	2,447,989	1,659,896
Less: – Joint venture partners' interests	(533,033)	(364,465)	(897,498)	(538,890)
– Elimination of unrealised profits	(22,675)	(15,441)	(38,116)	(8,856)
Interests in joint ventures (carrying value)	1,121,975	390,400	1,512,375	1,112,150

- (b) The associate of the Group as at 31 December 2014, which, in the opinion of the directors, is not material to the Group.

## 16 Restricted cash – Group

	31 December	
	2014 RMB'000	2013 RMB'000
Guarantee deposit for construction projects (Note (a))	104,600	99,284
Guarantee deposit for bank acceptance notes (Note (b))	353,145	152,215
Guarantee deposits for bank borrowings (Note (c))	135,023	116,933
Others	10,919	10,076
	603,687	378,508
Denominated in:		
– RMB	601,627	371,461
– HK\$	2,060	7,047
	603,687	378,508

## Notes to the Consolidated Financial Statements

### 16 Restricted cash – Group (continued)

- (a) In accordance with relevant documents issued by local State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place certain amount of pre-sale proceeds of properties at designated bank accounts as guarantee deposits for constructions of related properties. The deposits can only be used for purchases of construction materials and payments of construction fee of the relevant property projects when approval from the local State-Owned Land and Resource Bureau is obtained. The remaining balances of the deposits will be released after completion of related pre-sold properties or issuance of the real estate ownership certificate of the properties, whichever is the earlier.
- (b) As at 31 December 2014, the Group placed cash deposits of approximately RMB353,145,000 (2013: RMB152,215,000) with designated banks as guarantee for the issuance of bank acceptance notes.
- (c) As at 31 December 2014, the Group has placed cash deposits of approximately RMB135,023,000 (2013: RMB116,933,000) with designated banks as security for bank borrowings.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

### 17 Cash and cash equivalents

	Group 31 December		Company 31 December	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Cash at bank and in hand:				
– Denominated in RMB	4,286,677	4,250,744	1,277	–
– Denominated in HK\$	5,149	35,081	2,077	31,554
– Denominated in US\$	53,931	148,624	13,933	7,639
	<b>4,345,757</b>	<b>4,434,449</b>	<b>17,287</b>	<b>39,193</b>

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

## Notes to the Consolidated Financial Statements

## 18 Share capital and premium – Group and Company

	Number of ordinary shares	Nominal value of ordinary shares HK\$	Equivalent nominal value of ordinary share RMB'000	Share premium RMB'000	Shares held for Share Award Scheme RMB'000	Total RMB'000
<b>Authorised:</b>						
As at 1 January 2013, 31 December 2013 and 31 December 2014	30,000,000,000	300,000,000				
<b>Issued and fully paid:</b>						
As at 1 January 2014	4,048,013,000	40,480,130	35,936	3,084,256	(84,721)	3,035,471
Buy-back of shares of the Company (Note (b))	(50,710,000)	(507,100)	(450)	(48,510)	–	(48,960)
Purchase of shares by the trust held for Share Award Scheme	–	–	–	–	(6,815)	(6,815)
At 31 December 2014	3,997,303,000	39,973,030	35,486	3,035,746	(91,536)	2,979,696
As at 1 January 2013 and 31 December 2013	4,048,013,000	40,480,130	35,936	3,084,256	(84,721)	3,035,471

## (a) Shares held for Share Award Scheme

On 2 December 2010 (the "Adoption Date"), the Board approved and adopted a share award scheme in which a number of selected employees and directors of the Group are entitled to participate (the "Share Award Scheme"). The Group has set up a trust (the "Share Award Scheme Trust") for the purpose of administrating the Share Award Scheme. Under the sole discretion of the Board, the Share Award Scheme Trust will acquire the Company's shares from the Stock Exchange, with a maximum number determined by the Board, and hold the shares granted to the employees but not vested for the employees and directors until they are vested. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of six years commencing on the Adoption Date.

Employees and directors are not entitled to dividends on any awarded shares that are not yet transferred to them.

The Board will implement the Share Award Scheme in accordance with the terms of the Share Award Scheme rules including providing necessary funds to the Share Award Scheme Trust for the purchase of shares up to 2% of the issued share capital of the Company as of the Adoption Date.

As at 31 December 2014, the Share Award Scheme Trust holds 45,380,000 shares of the Company (2013: 38,353,000) (Note 19(d)).

- (b) The Company acquired 50,710,000 of its own shares through purchases on the Stock Exchange during the year ended 31 December 2014. The total amount paid to acquire the shares was RMB48,960,000. All the buy-back shares have been cancelled before 31 December 2014.

## Notes to the Consolidated Financial Statements

## 19 Other reserves

	Group					Company	
	Merger reserve RMB'000 (Note (a))	Statutory reserves RMB'000 (Note (b))	Share-based compensation reserve RMB'000 (Note (c) and Note (d))	Revaluation reserves RMB'000 (Note (e))	Transaction with non- controlling interests RMB'000	Total	Share-based compensation reserve RMB'000 (Note (c) and Note (d))
Balance at 1 January 2014	337,203	36,448	51,707	78,625	8,481	512,464	51,707
Pre-IPO Share Option Scheme (Note (c))	-	-	(3,858)	-	-	(3,858)	(3,858)
Share Award Scheme (Note (d))	-	-	6,975	-	-	6,975	6,975
Revaluation – net of tax	-	-	-	149,120	-	149,120	-
Appropriation to statutory reserves	-	126	-	-	-	126	-
<b>Balance at 31 December 2014</b>	<b>337,203</b>	<b>36,574</b>	<b>54,824</b>	<b>227,745</b>	<b>8,481</b>	<b>664,827</b>	<b>54,824</b>
Balance at 1 January 2013	337,203	9,411	63,237	78,281	-	488,132	63,237
Revaluation – net of tax	-	-	-	344	-	344	-
Transfer	-	(4,780)	-	-	-	(4,780)	-
Acquisition of additional interest of a subsidiary	-	-	-	-	8,481	8,481	-
Pre-IPO Share Option Scheme (Note (c))	-	-	(13,589)	-	-	(13,589)	(13,589)
Share Award Scheme (Note (d))	-	-	2,059	-	-	2,059	2,059
Appropriation to statutory reserves	-	31,817	-	-	-	31,817	-
<b>Balance at 31 December 2013</b>	<b>337,203</b>	<b>36,448</b>	<b>51,707</b>	<b>78,625</b>	<b>8,481</b>	<b>512,464</b>	<b>51,707</b>

**(a) Merger reserve**

The merger reserve represents the aggregate nominal value of the share capital/paid-in capital of the subsidiaries acquired by the Company from the controlling shareholders less the consideration paid to the controlling shareholders pursuant to the reorganisation undertaken in 2007 for preparation of listing of the Company on the Stock Exchange.

**(b) Statutory reserves**

Pursuant to the relevant laws and regulations in the PRC and the provision of the articles of association of the Group's subsidiaries, the Group's subsidiaries which are registered in the PRC shall appropriate certain percentage of profit after tax (after offsetting any accumulated losses brought forward from prior years) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds. Depending on the natures, the reserve funds can be used to set off accumulated losses of the subsidiaries or distribute to owners in form of bonus issue.

**(c) Pre-IPO Share Option Scheme**

On 16 September 2009, the Company granted share options to the certain employees of the Group under a share option scheme (the "Pre-IPO Share Option Scheme"), under which the option holders are entitled to acquire aggregate of 40,000,000 shares of the Company at 10% discount to the offer price of HK\$2.75 per share upon the listing date.

## Notes to the Consolidated Financial Statements

## 19 Other reserves (continued)

## (c) Pre-IPO Share Option Scheme (continued)

Particulars of share options as at 31 December 2014 and 2013 are as follows:

Vesting period	Expiry dates	Exercise price	Number of outstanding shares as at 31 December	
			2014	2013
2 years from 16 September 2009	15 September 2013	HK\$2.475	–	–
3 years from 16 September 2009	15 September 2014	HK\$2.475	–	5,156,000
4 years from 16 September 2009	15 September 2015	HK\$2.475	4,468,000	5,156,000
5 years from 16 September 2009	15 September 2016	HK\$2.475	4,468,000	5,156,000
			<b>8,936,000</b>	<b>15,468,000</b>

Movements in the number of share options outstanding are as follows:

	Year ended 31 December	
	2014	2013
At 1 January	15,468,000	22,176,000
Forfeited	(1,984,000)	(1,224,000)
Expired	(4,548,000)	(5,484,000)
At 31 December	<b>8,936,000</b>	<b>15,468,000</b>

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of options granted is HK\$2.16 per option, which was determined using the Binomial Model by an independent valuer.

The total expense recognised for employee services received in respect of the Pre-IPO Share Option Scheme for the year ended 31 December 2014 was RMB1,546,000 (2013: RMB4,434,000).

## (d) Share Award Scheme

Movements in the number of shares held for the Share Award Scheme for the years ended 31 December 2014 are as follows:

	Shares held for the Share Award Scheme	Awarded shares held by the Share Award Scheme Trust
At 1 January 2014	31,295,000	7,058,000
Purchase of shares by the trust held for Share Award Scheme	7,027,000	–
Granted to employees	(8,958,000)	8,958,000
Forfeited	3,645,300	(3,645,300)
At 31 December 2014	<b>33,009,300</b>	<b>12,370,700</b>
At 1 January 2013	38,353,000	–
Granted to employees	(7,502,000)	7,502,000
Forfeited	444,000	(444,000)
At 31 December 2013	31,295,000	7,058,000

## Notes to the Consolidated Financial Statements

## 19 Other reserves (continued)

## (d) Share Award Scheme (continued)

For the shares granted under the Share Award Scheme, the fair value of the employee services received in exchange for the grant of the awarded shares is recognised as an expense and credited to equity over the period in which the vesting conditions are fulfilled. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted.

The fair value of the awarded shares was calculated based on market prices of the Company's shares as at the respective grant dates. The expected dividends during the vesting periods have been taken into account when assessing the fair value of the awarded shares.

On 29 May 2014, the Company granted an aggregate of 8,958,000 shares to 84 eligible employees and directors pursuant to the Share Award Scheme. During the year ended 31 December 2014, an aggregate of 3,645,300 shares granted were forfeited due to the resignation of certain eligible employees. The outstanding awarded shares as at 31 December 2014 were 12,370,700 (2013: 7,058,000) shares.

Particulars of awarded shares as at 31 December 2014 and 2013 are as follows:

Vesting period	Dates of grant	Market price at grant dates HK\$/share	Number of outstanding shares as at 31 December	
			2014	2013
3 years	6 June 2013	1.60	2,859,350	3,529,000
4 years	6 June 2013	1.60	2,859,350	3,529,000
2 years	29 May 2014	1.11	3,326,000	–
3 years	29 May 2014	1.11	3,326,000	–
			<b>12,370,700</b>	<b>7,058,000</b>

The total expense recognised for employee and directors services received in respect of the Share Award Scheme for the year ended 31 December 2014 was RMB6,975,000 (2013:RMB2,059,000).

## Notes to the Consolidated Financial Statements

19 Other reserves (continued)  
(e) Other comprehensive income

	Year ended 31 December 2014		
	Revaluation reserves RMB'000	Non-controlling interests RMB'000	Total other comprehensive income RMB'000
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation reserves of property and equipment and land use rights transferred to investment properties – gross (Note 6, 7)	199,172	–	199,172
Tax charge	(49,793)	–	(49,793)
	<b>149,379</b>	<b>–</b>	<b>149,379</b>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gains on available-for-sale financial assets – gross (Note 13)	(259)	–	(259)
Tax charge	–	–	–
	<b>(259)</b>	<b>–</b>	<b>(259)</b>
<b>Total other comprehensive income – net of tax</b>	<b>149,120</b>	<b>–</b>	<b>149,120</b>
<b>Total tax charge – deferred income tax</b>			<b>(49,793)</b>
Year ended 31 December 2013			
	Revaluation reserves RMB'000	Non-controlling interests RMB'000	Total other comprehensive income RMB'000
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gains on available-for-sale financial assets – gross (Note 13)	344	–	344
Tax charge	–	–	–
<b>Total other comprehensive income – net of tax</b>	<b>344</b>	<b>–</b>	<b>344</b>
<b>Total tax charge – deferred income tax</b>			<b>–</b>

## Notes to the Consolidated Financial Statements

## 20 Perpetual Capital Instruments

In 2014, two wholly owned subsidiaries of the Company issued perpetual capital instruments (the "Perpetual Capital Instruments") with the aggregated principal amount of RMB1,300,000,000. The Perpetual Capital Instruments do not have maturity date and the distribution payments can be deferred at the discretion of the Company. Therefore, the Perpetual Capital Instruments are classified as equity instruments and recorded as part of equity in the consolidated balance sheet. The amount as at 31 December 2014 included the accrued distribution payments of RMB2,139,000.

## 21 Borrowings

	Group		Company	
	31 December		31 December	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings included in non-current liabilities:				
Senior notes	3,871,221	5,188,866	3,871,221	5,188,866
– senior notes due September 2017 ("2017 Notes") (Note (a)(i))	1,514,307	–	1,514,307	–
– senior notes due January 2018 ("2018 Notes") (Note (a)(ii))	1,558,977	1,561,245	1,558,977	1,561,245
– senior notes due May 2016 ("2016 Notes") (Note (a)(iii))	797,937	797,644	797,937	797,644
– senior notes due September 2015 ("2015 Notes") (Note (a)(iv))	–	1,242,366	–	1,242,366
– senior notes due March 2014 ("2014 Notes (I)") (Note (a)(v))	–	773,200	–	773,200
– senior notes due September 2014 ("2014 Notes (II)") (Note (a)(vi))	–	814,411	–	814,411
Bank borrowings – secured (Note (b))	9,904,974	9,511,021	1,768,615	563,780
Other borrowings – secured (Note (c))	2,245,880	455,000	–	–
Borrowings under sale and lease back agreement – secured (Note (d))	36,569	105,678	–	–
Less: amounts due within one year	(1,764,601)	(3,405,829)	(128,033)	(1,718,119)
	14,294,043	11,854,736	5,511,803	4,034,527
Borrowings included in current liabilities:				
Bank borrowings	2,267,443	1,094,221	1,798,728	333,790
– secured (Note (b))	2,194,093	1,043,721	1,798,728	333,790
– unsecured	73,350	50,500	–	–
Other borrowings – secured (Note (c))	258,897	75,373	–	–
Current portion of long-term borrowings	1,764,601	3,405,829	128,033	1,718,119
	4,290,941	4,575,423	1,926,761	2,051,909
Total borrowings	18,584,984	16,430,159	7,438,564	6,086,436



## Notes to the Consolidated Financial Statements

### 21 Borrowings (continued)

#### (a) Senior notes

##### (i) 2017 Notes and derivative financial instruments

On 18 September 2014, the Company issued 10.75%, 3 years senior notes, with an aggregated nominal value of RMB1,500,000,000 at face value ("2017 RMB Notional Amounts"). The net proceeds, after deducting the issuance costs, amounted to RMB1,465,536,000. The 2017 Notes is denominated in RMB.

The 2017 Notes recognised in the balance sheet are calculated as follows:

	Year ended 31 December 2014 RMB'000
Fair value at the date of issuance	1,465,536
Interest expenses and amortisation of issuance costs	48,771
At 31 December	1,514,307

On the issuance date of 2017 Notes, the Company entered into certain cross currency swaps ("2017 CCS") with a bank. According to the 2017 CCS, the Company exchanged RMB1,500,000,000 with the bank for equivalent US\$244,409,000 ("2017 US\$ Notional Amounts"). The Company need to pay interest at 9.5% per annum based on the 2017 US\$ Notional Amounts at each interest payment date of 2017 Notes. On maturity of 2017 Notes, the Company need to deliver the 2017 US\$ Notional Amounts to the bank in exchange with the 2017 RMB Notional Amounts.

2017 CCS is not designated as a hedging instrument but a derivative financial instrument and valued at fair value (Note 22).

##### (ii) 2018 Notes

On 25 January 2013, the Company issued 11.25%, 5 years senior notes, with an aggregated nominal value of US\$250,000,000 at 98.608% discount to face value. The net proceeds, after deducting the issuance costs, amounted to US\$241,670,000 (equivalent to approximately RMB1,524,717,000). The 2018 Notes is denominated in the US\$.

The 2018 Notes recognised in the balance sheet are calculated as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
At 1 January/at issuance date	1,561,245	1,524,717
Interest expenses and amortisation of issuance costs	184,606	170,653
Repayment of interest	(172,416)	(86,769)
Repurchase	(15,690)	–
Foreign exchange losses/(gains) – net	1,232	(47,356)
At 31 December	1,558,977	1,561,245

## Notes to the Consolidated Financial Statements

## 21 Borrowings (continued)

## (a) Senior notes (continued)

## (iii) 2016 Notes and derivative financial instruments

On 27 May 2013, the Company issued 9.50%, 3 years senior notes, with an aggregated nominal value of RMB800,000,000 at face value ("2016 RMB Notional Amounts"). The net proceeds, after deducting the issuance costs, amounted to RMB787,522,000. The 2016 Notes is denominated in RMB.

The 2016 Notes recognised in the balance sheet are calculated as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
At 1 January/at issuance date	797,644	787,522
Interest expenses and amortisation of issuance costs	81,369	48,122
Repayment of interest	(76,000)	(38,000)
Repurchase	(5,076)	–
At 31 December	797,937	797,644

On the issuance date of 2016 Notes, the Company entered into certain cross currency swaps ("2016 CCS") with a bank. According to the 2016 CCS, the Company exchanged RMB800,000,000 with the bank for equivalent US\$130,399,000 ("2016 US\$ Notional Amounts"). The Company need to pay interest at 8.4% per annum based on the 2016 US\$ Notional Amounts at each interest payment date of 2016 Notes. On maturity of 2016 Notes, the Company need to deliver the 2016 US\$ Notional Amounts to the bank in exchange with the 2016 RMB Notional Amounts.

2016 CCS is not designated as a hedging instrument but a derivative financial instrument and valued at fair value (Note 22).

## (iv) 2015 Notes

On 16 September 2010, the Company issued 13.75%, 5 years senior notes, with an aggregated nominal value of US\$200,000,000 at face value. The net proceeds, after deducting the issuance costs, amounted to US\$194,800,000 (equivalent to approximately RMB1,308,511,000). The 2015 Notes was denominated in US\$.

On 11 October 2014 (the "Redemption Date"), the Company redeemed the outstanding 2015 Notes in full at a redemption price equal to 103.4% of the principal amount of the 2015 Notes outstanding thereof which was US\$200,000,000 (equivalent to approximately RMB1,343,440,000), plus the applicable premium and the accrued and unpaid interest as of the Redemption Date. Such premium and interest of approximately RMB49,762,000 was recognised as "Other (losses)/gains – net" in the consolidated statement of comprehensive income (Note 28).

## Notes to the Consolidated Financial Statements

### 21 Borrowings (continued)

#### (a) Senior notes (continued)

##### (v) 2014 Notes (I)

On 17 March 2011, the Company issued 11.5%, 3 years senior notes, with an aggregated nominal value of RMB750,000,000 at face value. The net proceeds, after deducting the issuance costs, amounted to approximately RMB722,193,000. The 2014 Notes (I) was denominated in RMB. The 2014 Notes (I) matured on 17 March 2014 and were repaid by the Group on same date.

##### (vi) 2014 Notes (II)

On 8 September 2011, the Company issued 13.8%, 3 years senior notes, with an aggregated nominal value of HK\$1,000,000,000 at face value to a financial institution. The net proceeds, after deducting the issuance costs, amounted to HK\$973,124,000 (equivalent to approximately RMB797,680,000). The 2014 Notes (II) was additionally guaranteed by certain related parties (Note 38(b)(ii)). The 2014 Notes (II) are denominated in HK\$. The 2014 Notes (II) matured on 8 September 2014 and were repaid by the Group on same date.

#### (b) Bank borrowings – secured

As at 31 December 2014, bank borrowings of RMB12,099,067,000 (2013: RMB10,554,742,000) were secured by property and equipment (Note 6), land use rights (Note 7), investment properties (Note 8), properties under development (Note 9), completed properties held for sale (Note 10) and restricted cash (Note 16); the secured bank borrowings of RMB3,682,220,000 (2013: RMB2,600,570,000) were additionally guaranteed by certain related parties (Note 38(b)(ii)).

#### (c) Other borrowings – secured

As at 31 December 2014, borrowings from other financial institutions of RMB2,504,777,000 (2013: RMB530,373,000) were secured by land use rights (Note 7), investment properties (Note 8), properties under development (Note 9) and completed properties held for sale (Note 10).

#### (d) Borrowings under sale and lease back agreement – secured

In 2012, the Group has entered into a sale and lease back agreement with an independent third party for certain machinery and equipment installed in the Group's property and equipment and investment properties. The lease period is three years and the Group has an option to take up the machinery and equipment at the end of the lease period at nil consideration. This transaction was treated as a finance lease and thus, the machinery and equipment has not been derecognised, the present value of total lease payments was recognised as borrowings under sale and lease back agreement of the Group and the finance charges of the borrowings are calculated under the effective interest method and recognised as finance costs of the Group.

The present value of borrowings under sale and lease back agreement is as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
No later than 1 year	36,569	69,109
Later than 1 year and not later than 3 years	–	36,569
	<b>36,569</b>	<b>105,678</b>

## Notes to the Consolidated Financial Statements

## 21 Borrowings (continued)

- (e) The exposure of the Group's and the Company's borrowings to interest-rate changes and the contractual repricing dates or maturity date whichever is earlier at the end of the year are as follows:

## The Group

	6 months or less RMB'000	6-12 months RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Borrowings included in non-current liabilities:					
At 31 December 2014	2,248,415	6,185,060	5,616,068	244,500	14,294,043
At 31 December 2013	2,212,349	5,032,140	4,470,247	140,000	11,854,736
Borrowings included in current liabilities:					
At 31 December 2014	2,932,611	1,358,330	–	–	4,290,941
At 31 December 2013	1,876,116	2,699,307	–	–	4,575,423

## The Company

	6 months or less RMB'000	6-12 months RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Borrowings included in non-current liabilities:					
At 31 December 2014	1,768,615	–	3,743,188	–	5,511,803
At 31 December 2013	563,780	–	3,470,747	–	4,034,527
Borrowings included in current liabilities:					
At 31 December 2014	1,798,728	128,033	–	–	1,926,761
At 31 December 2013	1,106,989	944,920	–	–	2,051,909

## Notes to the Consolidated Financial Statements

## 21 Borrowings (continued)

(f) The carrying amounts and fair value of the non-current borrowings are as follows:

The Group	31 December 2014		31 December 2013	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	RMB'000	RMB'000	RMB'000	RMB'000
2017 Notes (Note (i))	1,468,362	1,479,135	–	–
2018 Notes (Note (ii))	1,484,009	1,478,964	1,486,548	1,547,858
2016 Notes (Note (ii))	790,817	787,363	790,524	793,701
2015 Notes (Note (i))	–	–	1,193,675	1,292,825
Bank borrowings (Note (iii))	8,559,975	8,615,356	8,347,420	8,366,838
Other borrowings (Note (iii))	1,990,880	1,990,880	–	–
Borrowings under sale and lease back agreement (Note (iii))	–	–	36,569	36,569
	<b>14,294,043</b>	<b>14,351,698</b>	11,854,736	12,037,791

  

The Company	31 December 2014		31 December 2013	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	RMB'000	RMB'000	RMB'000	RMB'000
2017 Notes (Note (i))	1,468,362	1,479,135	–	–
2018 Notes (Note (ii))	1,484,009	1,478,964	1,486,548	1,547,858
2016 Notes (Note (ii))	790,817	787,363	790,524	793,701
2015 Notes (Note (i))	–	–	1,193,675	1,292,825
Bank Borrowings (Note (iii))	1,768,615	1,768,615	563,780	563,780
	<b>5,511,803</b>	<b>5,514,077</b>	4,034,527	4,198,164

Notes:

- (i) The fair values are determined directly by references to the price quotations published by Singapore Exchange Limited on 31 December 2014 and 2013, using the pricing of dealing date and are within level 1 of the fair value hierarchy.
- (ii) The fair values are determined directly by references to the price quotations published by the Stock Exchange on 31 December 2014 and 2013, using the pricing of dealing date and are within level 1 of the fair value hierarchy.
- (iii) The fair values are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date and are within level 2 of the fair value hierarchy.

## Notes to the Consolidated Financial Statements

## 21 Borrowings (continued)

(g) The Group's and the Company's non-current borrowings are repayable as follows:

	Senior notes RMB'000	Bank borrowings RMB'000	Other borrowings RMB'000	Borrowings under sale and lease back agreement RMB'000	Total RMB'000
<b>The Group</b>					
As at 31 December 2014					
1-2 years	1,129,632	4,400,846	1,282,500	-	6,812,978
2-5 years	2,613,556	2,514,879	708,380	-	5,836,815
Over 5 years	-	1,644,250	-	-	1,644,250
	<b>3,743,188</b>	<b>8,559,975</b>	<b>1,990,880</b>	<b>-</b>	<b>14,294,043</b>
As at 31 December 2013					
1-2 years	2,160,838	3,444,421	-	36,569	5,641,828
2-5 years	1,309,909	2,759,500	-	-	4,069,409
Over 5 years	-	2,143,499	-	-	2,143,499
	<b>3,470,747</b>	<b>8,347,420</b>	<b>-</b>	<b>36,569</b>	<b>11,854,736</b>
<b>The Company</b>					
As at 31 December 2014					
1-2 years	1,129,632	1,579,286	-	-	2,708,918
2-5 years	2,613,556	189,329	-	-	2,802,885
	<b>3,743,188</b>	<b>1,768,615</b>	<b>-</b>	<b>-</b>	<b>5,511,803</b>
As at 31 December 2013					
1-2 years	2,160,838	563,780	-	-	2,724,618
2-5 years	1,309,909	-	-	-	1,309,909
	<b>3,470,747</b>	<b>563,780</b>	<b>-</b>	<b>-</b>	<b>4,034,527</b>

## Notes to the Consolidated Financial Statements

## 21 Borrowings (continued)

(h) The maturity of the borrowings is as follows:

	Senior notes RMB'000	Bank borrowings RMB'000	Other borrowings RMB'000	Borrowings under sale and lease back agreement RMB'000	Total RMB'000
<b>The Group</b>					
As at 31 December 2014					
Wholly repayable within 5 years	3,871,221	8,722,917	2,504,777	36,569	15,135,484
Wholly repayable after 5 years	–	3,449,500	–	–	3,449,500
	<b>3,871,221</b>	<b>12,172,417</b>	<b>2,504,777</b>	<b>36,569</b>	<b>18,584,984</b>
As at 31 December 2013					
Wholly repayable within 5 years	5,188,866	6,984,242	530,373	105,678	12,809,159
Wholly repayable after 5 years	–	3,621,000	–	–	3,621,000
	<b>5,188,866</b>	<b>10,605,242</b>	<b>530,373</b>	<b>105,678</b>	<b>16,430,159</b>
<b>The Company</b>					
As at 31 December 2014					
Wholly repayable within 5 years	3,871,221	3,567,343	–	–	7,438,564
Wholly repayable after 5 years	–	–	–	–	–
	<b>3,871,221</b>	<b>3,567,343</b>	<b>–</b>	<b>–</b>	<b>7,438,564</b>
As at 31 December 2013					
Wholly repayable within 5 years	5,188,866	897,570	–	–	6,086,436
Wholly repayable after 5 years	–	–	–	–	–
	<b>5,188,866</b>	<b>897,570</b>	<b>–</b>	<b>–</b>	<b>6,086,436</b>

(i) The effective interest rates of borrowings are as follows:

	Group 31 December		Company 31 December	
	2014	2013	2014	2013
Senior notes	11.88%	13.40%	11.88%	13.40%
Bank and other borrowings	7.04%	7.31%	3.09%	3.41%
Borrowings under sale and lease back agreement	7.65%	7.65%	–	–

## Notes to the Consolidated Financial Statements

## 21 Borrowings (continued)

(j) The carrying amounts of borrowings are denominated in the following currencies:

	Group 31 December		Company 31 December	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	13,705,249	11,896,664	2,587,244	1,570,844
HK\$	750,719	1,148,200	750,719	1,148,200
US\$	4,129,016	3,385,295	4,100,601	3,367,392
	<b>18,584,984</b>	<b>16,430,159</b>	<b>7,438,564</b>	<b>6,086,436</b>

(k) As at 31 December 2014 and 2013, the Group had the following undrawn borrowing facilities:

	Group 31 December	
	2014 RMB'000	2013 RMB'000
Floating rate:		
– expiring within 1 year	75,581	–
– expiring beyond 1 year	757,710	201,000
Fixed rate:		
– expiring within 1 year	–	12,500
	<b>833,291</b>	<b>213,500</b>

## 22 Derivative financial instruments

As at 31 December 2014 and 2013, the Group had the following derivative financial instruments:

	31 December	
	2014 RMB'000	2013 RMB'000
Non-current portion:		
– 2017 CCS as a liability (Note 21(a)(i))	54,135	–
– 2016 CCS as a liability/(asset) (Note 21(a)(iii))	27,043	(11,406)
	<b>81,178</b>	<b>(11,406)</b>

The derivative financial instruments are classified as non-current assets or liabilities as they will be settled more than 12 months.



## Notes to the Consolidated Financial Statements

## 23 Deferred income tax – Group

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	31 December	
	2014 RMB'000	2013 RMB'000
Deferred income tax assets:		
To be realised after more than 12 months	249,578	133,260
To be realised within 12 months	130,735	69,805
	<b>380,313</b>	203,065
Deferred income tax liabilities to be settled after more than 12 months	(3,314,613)	(3,187,587)
Deferred income tax liabilities – net	<b>(2,934,300)</b>	(2,984,522)

The gross movement on the deferred income tax is as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
At 1 January	(2,984,522)	(2,842,869)
Tax credited to/(charged in) consolidated income statement (Note 31)	100,015	(141,653)
Tax charge relating to components of other comprehensive income (Note 19)	(49,793)	–
At 31 December	<b>(2,934,300)</b>	(2,984,522)

## Deferred income tax assets

	Temporary difference on unrealised profit of inter-company transactions RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2014	149,089	96,661	245,750
Tax credited to consolidated income statement	101,595	94,532	196,127
At 31 December 2014	250,684	191,193	441,877
At 1 January 2013	125,088	93,049	218,137
Tax credited to consolidated income statement	24,001	3,612	27,613
At 31 December 2013	149,089	96,661	245,750

## Notes to the Consolidated Financial Statements

## 23 Deferred income tax – Group (continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

## Deferred income tax liabilities

	Temporary difference on unrealised profit of inter-company transactions RMB'000	Temporary difference on revaluation gains of investment properties RMB'000	Temporary difference on revaluation reserves recognised in other comprehensive income RMB'000	Total RMB'000
At 1 January 2014	(2,776)	(3,199,760)	(27,736)	(3,230,272)
Tax charged in consolidated income statement	(325)	(95,787)	-	(96,112)
Tax charge relating to components of other comprehensive income	-	-	(49,793)	(49,793)
At 31 December 2014	(3,101)	(3,295,547)	(77,529)	(3,376,177)
At 1 January 2013	(2,317)	(3,030,953)	(27,736)	(3,061,006)
Tax charged in consolidated income statement	(459)	(168,807)	-	(169,266)
At 31 December 2013	(2,776)	(3,199,760)	(27,736)	(3,230,272)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB35,037,000 (2013: RMB45,929,000) in respect of losses amounting to RMB148,735,000 (2013: RMB179,620,000) that can be carried forward against future taxable income. The tax losses could be carried forward for a maximum of five years.

Deferred income tax liabilities of RMB1,420,903,000 (2013: RMB1,301,074,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled RMB16,560,097,000 at 31 December 2014 (2013: RMB14,515,648,000), as the Group does not have a plan to distribute these earnings out of the PRC.

## Notes to the Consolidated Financial Statements

## 24 Trade and other payables

	Group		Company	
	31 December		31 December	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	3,226,856	2,100,340	–	–
– Related parties (Note 38(d))	19,471	18,969	–	–
– Third parties	2,801,559	1,874,378	–	–
– Notes payable – third parties	405,826	206,993	–	–
Other payables and accruals	3,890,929	2,342,782	55,000	42,562
– Related parties (Note 38(d))	2,667,462	1,167,351	32,900	32,900
– Third parties	1,223,467	1,175,431	22,100	9,662
Payables for retention fee	290,554	208,928	–	–
Payables for acquisition of land use rights	127,385	53,834	–	–
Other taxes payables	191,358	163,580	–	–
	7,727,082	4,869,464	55,000	42,562

As at 31 December 2014 and 2013, the ageing analysis of trade payables of the Group based on invoice date were as follows:

	31 December	
	2014	2013
	RMB'000	RMB'000
Within 90 days	1,276,894	343,266
Over 90 days and within 180 days	869,601	160,408
Over 180 days and within 365 days	272,872	968,207
Over 365 days and within 3 years	807,489	628,459
	3,226,856	2,100,340

## 25 Current income tax liabilities – Group

The current income tax liabilities are analysed as follows:

	31 December	
	2014	2013
	RMB'000	RMB'000
Current income tax liabilities		
– PRC corporate income tax payable	1,309,007	1,063,742
– Withholding income tax for the profits to be distributed from the group companies in the PRC	110,300	93,300
– PRC land appreciation tax payable	775,084	1,026,225
	2,194,391	2,183,267

## Notes to the Consolidated Financial Statements

**26 Expenses by nature**

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Cost of properties sold (excluding staff costs)	5,565,321	4,200,275
Staff costs (including directors' emoluments) (Note 27)	638,680	472,040
Business taxes and other levies (Note (a))	576,474	427,800
Advertising costs	272,958	167,183
Cost of hotel operations (excluding staff costs)	170,989	149,585
Depreciation (Note 6)	132,665	110,451
Cost of property management service (excluding staff costs)	99,955	75,592
Office lease payments	16,131	12,248
Amortisation of land use rights (Note 7)	15,846	13,863
Donations to governmental charity	10,641	10,709
Auditor's remuneration	4,280	4,280

**(a) Business taxes**

The group entities established in the PRC are subject to business taxes on their revenue at the following rates:

Category	Rate
Sales of properties	5%
Property construction and decoration	3%
Rental income	5%
Property management	5%
Hotel service	5%

**27 Staff costs**

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Wages and salaries	521,067	383,053
Pension costs – statutory pension (Note (c))	76,773	58,528
Other staff welfare and benefits	32,319	23,966
Value of employee services under:		
– Pre-IPO Share Option Scheme	1,546	4,434
– Share Award Scheme	6,975	2,059
	638,680	472,040

## Notes to the Consolidated Financial Statements

## 27 Staff costs(continued)

## (a) Directors' emoluments

The remuneration of each director of the Company for the year ended 31 December 2014 are set out below:

	Wages and salaries RMB'000	Retirement scheme contributions RMB'000	Fee RMB'000	Pre-IPO Share Option Scheme RMB'000	Share Award Scheme RMB'000	Total RMB'000
Executive directors						
Mr. Hoi Kin Hong	600	-	240	421	407	1,668
Mr. Hoi Wa Fong	360	-	240	132	330	1,062
Mr. Xiao Qing Ping	476	20	240	108	351	1,195
Ms. Shih Sze Ni	240	-	240	72	213	765
Mr. Guo Jun (Note (a))	558	75	180	-	234	1,047
Non-executive directors						
Ms. Liu Xiao Lan (Note (b))	-	-	36	18	-	54
Ms. Hoi Wa Fan	-	-	144	-	-	144
Independent non-executive directors						
Mr. Ngai Wai Fung	-	-	192	-	-	192
Mr. Mei Jian Ping	-	-	192	-	-	192
Ms. Nie Mei Sheng (Note (c))	-	-	160	-	-	160
Mr. Ding Zu Yu (Note (d))	-	-	16	-	-	16
	2,234	95	1,880	751	1,535	6,495

The remuneration of each director of the Company for the year ended 31 December 2013 is set out below:

	Wages and salaries RMB'000	Retirement scheme contributions RMB'000	Fee RMB'000	Pre-IPO Share Option Scheme RMB'000	Share Award Scheme RMB'000	Total RMB'000
Executive directors						
Mr. Hoi Kin Hong	480	-	240	1,090	89	1,899
Mr. Hoi Wa Fong	240	-	240	342	89	911
Mr. Xiao Qing Ping	326	18	240	280	122	986
Ms. Shih Sze Ni	90	-	240	187	63	580
Non-executive directors						
Ms. Liu Xiao Lan (Note (b))	-	-	142	187	-	329
Ms. Hoi Wa Fan	-	-	142	-	-	142
Independent non-executive directors						
Mr. Ngai Wai Fung	-	-	189	-	-	189
Mr. Mei Jian Ping	-	-	189	-	-	189
Ms. Nie Mei Sheng (Note (c))	-	-	189	-	-	189
	1,136	18	1,811	2,086	363	5,414

## Notes to the Consolidated Financial Statements

## 27 Staff costs (continued)

## (a) Directors' emoluments (continued)

Note:

- a. Mr. Guo Jun has been appointed as an executive director of the Company with effect from 1 April 2014.
- b. Ms. Liu Xiao Lan re-designated as a non-executive director from 1 April 2012. She has retired as a non-executive director of the Company upon the expiry of her service contract with effect from 31 March 2014.
- c. Ms. Nie Mei Sheng has tendered her resignation as an independent non-executive director of the Company with effect from 10 October 2014.
- d. Mr. Ding Zu Yu has been appointed as an independent non-executive director of the Company with effect from 11 December 2014.

During the year ended 31 December 2014, none of the directors of the Company waived his/her emoluments nor has agreed to waive his/her emoluments for the year (2013: same).

## (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year including four (2013: three) directors whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments of the remaining one (2013: two) individuals during the year are set out below:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Wages and salaries	678	1,176
Retirement scheme contributions	61	110
Pre-IPO Share Option Scheme	96	498
Share Award Scheme	335	143
	<b>1,170</b>	<b>1,927</b>

The emoluments fell within the following bands:

	Number of individuals	
	2014	2013
Emolument bands (in HK\$)		
HK\$1,000,000 – HK\$1,500,000	1	2

## (c) Pensions – defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income, with a maximum cap per employee per month.

## Notes to the Consolidated Financial Statements

## 28 Other losses/(gains) – net

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Gain on disposal of investment properties	(10,914)	(54,878)
Investment income from financial instruments	(6,469)	(7,384)
Fair value losses/(gains) on derivative financial instruments (Note 22)	92,584	(11,406)
Early redemption cost of 2015 Notes (Note 21(a)(iv))	49,762	–
Interest income on entrusted loans	–	(21,702)
	<b>124,963</b>	<b>(95,370)</b>

## 29 Exchange gains/(losses) – net

Amount mainly represents the gain or loss of translation of financial assets and liabilities, which are denominated in foreign currency, into RMB at the prevailing year-end exchange rate. It does not include the exchange gain or loss of translation of borrowings which are included in the "Finance (costs)/income – net" (Note 30).

## 30 Finance costs/(income) – net

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Interest expenses:		
Bank borrowings, other borrowings and borrowings under sale and lease back agreement	1,053,566	768,625
Senior notes	570,569	627,626
Less: interest capitalised	(1,597,915)	(1,361,369)
	<b>26,220</b>	<b>34,882</b>
Foreign exchange losses/(gains) on financing activities – net	4,386	(155,905)
	<b>30,606</b>	<b>(121,023)</b>

## Notes to the Consolidated Financial Statements

## 31 Income tax expense

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Current income tax:		
PRC corporate income tax	643,865	343,281
PRC land appreciation tax	90,490	192,891
Provision of/(reversal of) withholding income tax for profits to be distributed from the group companies in the PRC	17,000	(14,411)
Deferred income tax:		
PRC corporate income tax	(100,015)	141,653
	<b>651,340</b>	<b>663,414</b>

The tax charge on other comprehensive income has been disclosed in Note 19(e).

The income tax on the profit before income tax of the Group differs from the theoretical amount that would arise using the enacted tax rate of the home country of the group entities as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Profit before income tax	2,158,934	2,063,590
Calculated at applicable corporate income tax rate	524,937	506,524
Effect of expenses not deductible for income tax	18,801	12,264
Effect of income not subject to income tax	(8,295)	(4,469)
Share of loss/(profit) of investments accounted for using the equity method	177	(27,091)
Tax losses for which no deferred income tax asset was recognised	30,853	45,929
PRC land appreciation tax deductible for PRC corporate income tax purposes	(22,623)	(48,223)
	<b>543,850</b>	<b>484,934</b>
Provision of/(reversal) of withholding income tax for profits to be distributed by certain group companies in the PRC	17,000	(14,411)
PRC land appreciation tax	90,490	192,891
	<b>651,340</b>	<b>663,414</b>



## Notes to the Consolidated Financial Statements

### 31 Income tax expense (continued)

#### PRC corporate income tax

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), which is effective from 1 January 2008. Under the CIT Law, the corporate income tax rate applicable to the group entities located in Mainland China is 25%.

According to the CIT Law, starting from 1 January 2008, a withholding tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil requirements under the tax treaty arrangements between the PRC and Hong Kong.

#### PRC land appreciation tax ("LAT")

Pursuant to the requirements of the Provisional Regulations of the PRC on LAT effective 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT effective on 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

The Group has made provision of LAT for sales of properties according to the aforementioned progressive rate, except for certain group companies which calculate the LAT based on deemed tax rates in accordance with the approved taxation method obtained from tax authorities.

#### Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the British Virgin Islands was incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, is exempted from British Virgin Islands income tax.

#### Hong Kong profits tax

No provision for Hong Kong profits tax has been made in these consolidated financial statements as the Company and the Group did not have assessable profit in Hong Kong for the year. The profit of the group entities in Hong Kong is mainly derived from dividend income, which is not subject to Hong Kong profits tax.

## Notes to the Consolidated Financial Statements

## 32 Retained earnings of the Company

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
As at 1 January	182,468	339,246
Profit for the year	112,328	149,040
Transfer from reserves of Pre-IPO Share Option Scheme	5,404	18,023
Dividends	–	(323,841)
As at 31 December	300,200	182,468

## 33 Earnings per share

## (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Group and held for Share Award Scheme (Note 19 (d)).

	Year ended 31 December	
	2014	2013
Profit attributable to owners of the Company (RMB'000)	1,370,828	1,403,536
Weighted average number of ordinary shares in issue (thousand shares)	3,966,152	4,009,660
Basic earnings per share (RMB cents per share)	34.56	35.00

## (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: Pre-IPO Share Option Scheme and Share Award Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options under the two schemes. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the two schemes.

	Year ended 31 December	
	2014	2013
Profit attributable to owners of the Company (RMB'000)	1,370,368	1,403,536
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	3,968,511	4,012,102
– Weighted average number of ordinary shares for basic earnings per share (thousand shares)	3,966,152	4,009,660
– Adjustment for share options and awarded shares (thousand shares)	2,359	2,442
Diluted earnings per share (RMB cents per share)	34.54	34.98

## Notes to the Consolidated Financial Statements

### 34 Dividends

The Board recommended the payment of a final dividend of HK\$8.0 cents (equivalent to RMB6.3 cents) per ordinary share. The totalling amount of HK\$319,784,000 (equivalent to RMB252,278,000) is based on the ordinary shares in issue as of 31 December 2014. Such dividend is subject to approval by the shareholders at the Annual General Meeting on 9 June 2015. These consolidated financial statements do not reflect this dividend payable. No final dividend in respect of the year ended 31 December 2013 was proposed by the Board.

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Proposed final dividends	252,278	–

### 35 Cash generated from/(used in) operations – Group

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Profit before taxation	2,158,934	2,063,590
Adjustments for:		
Depreciation (Note 6)	132,665	110,451
Amortisation of land use rights recognised as expense (Note 7)	15,846	13,863
Fair value gains on investment properties – net (Note 8)	(599,325)	(530,672)
Share of loss/(profit) of investments accounted for using the equity method (Note 15)	709	(108,365)
Elimination of unrealised profits (Note 15)	29,260	8,856
Amortisation of Pre-IPO Share Option Scheme and Share Award Scheme (Note 19)	8,521	6,493
Other losses/(gains) – net	124,963	(95,884)
Finance costs/(income) – net (Note 30)	30,606	(121,023)
Effect of foreign exchange rate changes	(4,721)	22,543
Changes in operating capital:		
Properties under construction and completed properties held for sale	(3,697,627)	(217,636)
Restricted cash	(213,904)	68,602
Trade and other receivables	64,469	(568,130)
Prepayments	1,685,694	(1,888,521)
Financial assets at fair value through profit or loss	13,100	(12,850)
Trade and other payables	1,049,808	314,447
Advances from customers	455,690	552,481
Cash generated from/(used in) operation	1,254,688	(381,755)

## Notes to the Consolidated Financial Statements

## 36 Financial guarantee contracts

The face value of the financial guarantees issued by the Group and the Company is analysed as below:

## The Group

	31 December	
	2014 RMB'000	2013 RMB'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties (Note (a))	6,462,924	4,711,027
Guarantees for borrowings of joint ventures (Note (b))	1,670,730	993,880
	<b>8,133,654</b>	<b>5,704,907</b>

## The Company

	31 December	
	2014 RMB'000	2013 RMB'000
Guarantees for borrowings of subsidiaries (Note (b))	2,411,900	2,242,100

- (a) The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the mortgages. The directors of the Company are of the view that the fair value of financial guarantees is not significant.

- (b) It represents guarantees provided to joint ventures and subsidiaries of the Group to obtain borrowings. The Directors consider that the fair value of these contracts at the date of inception was minimal and understand the repayment was on schedule and risk of default in payment was remote, therefore no provision has been made in the financial statements for the guarantees.

## Notes to the Consolidated Financial Statements

## 37 Commitments – Group

## (a) Commitments for property development expenditures

	31 December	
	2014 RMB'000	2013 RMB'000
Contracted but not provided for:		
Properties development activities	6,261,982	4,471,549
Acquisition of land use rights	41,461	3,031,035
	<b>6,303,443</b>	<b>7,502,584</b>

## (b) Operating leases commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December	
	2014 RMB'000	2013 RMB'000
– Not later than one year	15,887	11,957
– Later than one year and not later than two years	1,862	10,719
– Later than two years and not later than three years	191	–
	<b>17,940</b>	<b>22,676</b>

## Notes to the Consolidated Financial Statements

## 38 Related party transactions

## (a) Name and relationship with related parties

Name	Relationship
Skylong Holdings Limited	The ultimate holding company of the Group (incorporated in Cayman Islands)
The Controlling Shareholders, including Mr. Hoi Kin Hong, Ms. Wang Lai Jan, Mr. Hoi Wa Fong and Ms. Hoi Wa Fan	Ultimate controlling shareholders of the Company and their close family member, Mr. Hoi Kin Hong, Mr. Hoi Wa Fong and Ms. Hoi Wa Fan are also directors of the Company
Sky Infinity Holdings Limited	Shareholder of the Company and fully owned subsidiary of Mr. Hoi Wa Fong
Powerlong Group Development Co., Ltd. 寶龍集團發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Macau Powerlong Group 澳門寶龍集團發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Xiamen Powerlong Information Industry Co., Ltd. 廈門寶龍信息產業發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Fuzhou Powerlong Amusement Management Company Limited 福州寶龍樂園遊樂有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Qingdao Powerlong Amusement Management Company Limited 青島寶龍樂園旅遊發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Qingdao BaoZhan New World Industry Co., Ltd. 青島寶展世新實業有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Fujian Ping An Security Devices and Network Limited 福建平安報警網絡有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Zhengzhou Cannes Outlets Commercial Company Limited 鄭州康城奧特萊斯商業有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Great Merchant Limited 弘商有限責任公司	Ultimately controlled by Mr. Hoi Kin Hong
Tianjin Powerlong Jinjun Real Estate Co., Ltd. ("Tianjin Jinjun") 天津寶龍金駿房地產開發有限公司	Joint venture
Hangzhou Xiaoshan Powerlong Property Co., Ltd. ("Hangzhou Xiaoshan") 杭州蕭山寶龍置業有限公司	Joint venture
Xiamen Powerlong Industry Co., Ltd. ("Xiamen Ludao") 廈門寶龍實業有限公司	Joint venture
Baohui Property (Hong Kong) Holdings Co., Ltd. ("Baohui Limited") 寶匯地產(香港)控股有限公司	Joint venture
Shanghai Powerlong Zhanyao Enterprises Development Limited ("Shanghai Zhanyao") 上海寶龍展耀企業發展有限公司	Joint venture
Powerlong Golden Wheel Coral Company Limited ("Golden Wheel") 寶龍金輪珊瑚有限公司	Joint venture
Quanzhou Shangquan Industrial Development Co., Ltd. 泉州市上泉實業發展有限公司	Associate

## Notes to the Consolidated Financial Statements

## 38 Related party transactions (continued)

## (b) Transactions with related parties

- (i) During the year ended 31 December 2014 and 2013, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Sales of properties:		
– Mr. Hoi Wa Fong	33,346	–
Rental income from fellow subsidiaries		
– Fuzhou Powerlong Amusement Management Company Limited	2,308	2,308
Property management fee income		
– Fellow subsidiaries ultimately controlled by Mr. Hoi Kin Hong	883	797
Purchase of office equipment and security intelligentisation system services from fellow subsidiaries		
– Fujian Ping An Security Devices and Network Limited	23,582	41,538
– Xiamen Powerlong Information Industry Co., Ltd.	5,424	769
	29,006	42,307
Hotel accommodation service fee charged by a fellow subsidiary		
– Macau Powerlong Group	1,143	812
Office lease expense charged by a fellow subsidiary		
– Xiamen Powerlong Information Industry Co., Ltd.	–	1,485
Sales of construction materials to joint ventures		
– Tianjin Jinjun	44,335	20,534
– Xiamen Ludao	38,701	–
– Golden Wheel	7,209	–
– Hangzhou Xiaoshan	21,254	–
	111,499	20,534
Consultation services provided to joint ventures		
– Tianjin Jinjun	17,985	14,614
– Xiamen Ludao	9,384	–
– Hangzhou Xiaoshan	4,369	–
	31,738	14,614
Guarantees for borrowings to joint ventures:		
– Tianjin Jinjun	1,020,730	993,880
– Hangzhou Xiaoshan	650,000	–
	1,670,730	993,880

The above transactions were charged in accordance with the terms of the underlying agreements.

## Notes to the Consolidated Financial Statements

**38 Related party transactions (continued)****(b) Transactions with related parties (continued)**

(ii) Certain related parties have provided guarantees for the Group's bank borrowings of RMB3,682,220,000 at 31 December 2014 (2013: bank borrowings of RMB2,600,570,000 and senior notes of RMB814,411,000)(Note 21).

(iii) In the opinion of the directors of the Company, the related party transactions were conducted in the ordinary course of business.

**(c) Key management compensation**

Key management compensation is set out below:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Key management compensation		
– Salaries and other employee benefits	13,434	12,166
– Pension costs	709	763
	<b>14,143</b>	<b>12,929</b>

**(d) Balances with related parties**

As at 31 December 2014, the Group had the following material balances with related parties:

	31 December	
	2014 RMB'000	2013 RMB'000
<b>Amounts due from related parties included in trade receivables (Note (i)):</b>		
Amounts due from other related parties		
– Fuzhou Powerlong Amusement Management Company Limited	42	174
– Qingdao Powerlong Amusement Management Company Limited	–	35,754
– Zhengzhou Cannes Outlets Commercial Company Limited	–	15,713
Amounts due from joint ventures		
– Xiamen Ludao	30,538	–
– Tianjin Jinjun	7,815	1,475
Total amounts due from related parties included in trade receivables	<b>38,395</b>	<b>53,116</b>



## Notes to the Consolidated Financial Statements

38 Related party transactions (continued)  
(d) Balances with related parties (continued)

	31 December	
	2014 RMB'000	2013 RMB'000
<b>Amounts due from related parties included in other receivables (Note (ii)):</b>		
Amounts due from other related parties		
– Powerlong Group Development Co., Ltd.	21,376	21,376
– Qingdao Powerlong Amusement Management Company Limited	–	1,461
– Zhengzhou Cannes Outlets Commercial Company Limited	–	495
– Other related entities ultimately controlled by Mr. Hoi Kin Hong	–	15
Amounts due from joint ventures		
– Shanghai Zhanyao	10,285	–
– Baohui Limited	267,275	–
<b>Total amounts due from related parties included in other receivables</b>	<b>298,936</b>	<b>23,347</b>
<b>Amounts due to related parties included in trade payables (Note (i)):</b>		
Amounts due to other related parties		
– Fujian Ping An Security Devices and Network Limited	16,357	17,296
– Other related entities ultimately controlled by Mr. Hoi Kin Hong	614	1,673
Amounts due from a joint venture		
– Xiamen Ludao	2,500	–
<b>Total amounts due to related parties included in trade payables</b>	<b>19,471</b>	<b>18,969</b>
<b>Amounts due to related parties included in other payables (Note (ii)):</b>		
Amounts due to other related parties and ultimate controlling shareholder		
– Powerlong Group Development Co., Ltd.	229,651	–
– Great Merchant Limited	172,152	77,745
– Mr. Hoi Kin Hong	32,900	32,900
Amounts due to joint ventures		
– Tianjin Jinjun	1,354,145	1,014,706
– Golden Wheel	13,500	–
– Hangzhou Xiaoshan	638,789	–
– Xiamen Ludao	186,325	–
Amounts due to an associate		
– Quanzhou Shangquan Industrial Development Co., Ltd. (Note 15)	40,000	42,000
	<b>2,667,462</b>	<b>1,167,351</b>
Senior notes held by a shareholder of the:		
– Sky Infinity Holdings Limited	–	35,128

## Notes to the Consolidated Financial Statements

## 38 Related party transactions (continued)

## (d) Balances with related parties (continued)

- (i) Amounts due from/to related parties included in trade receivables/payables are mainly derived from rental income and purchase of construction materials, which are unsecured, interest-free and to be settled according to contract terms.
- (ii) Amounts due from/to related parties included in other receivables/payables are unsecured, interest-free and repayable on demand, which are cash advances in nature.

## (e) Amounts due from a director and entities ultimately controlled by the director

Particulars of amounts due from a director of the Company and entities ultimately controlled by the director are as follows:

	31 December		Maximum amount outstanding for the year ended 31 December	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Related entities ultimately controlled by Mr. Hoi Kin Hong (Note (d))	21,418	74,988	74,988	90,349

## 39 Principal subsidiaries of the Company

Details of the principal subsidiaries of the Company at 31 December 2014 are set out below.

Name	Place and date of incorporation/ establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Attributable equity interest	Equity interests held by non-controlling interests	Principal activities and place of operations
Powerlong Real Estate (BVI) Holdings Limited	British Virgin Islands 20 July 2007	HK\$100	100%	–	Investment holding in British Virgin Islands
Powerlong Real Estate (Hong Kong) Holdings Limited	Hong Kong 5 July 2007	HK\$1	100%	–	Investment holding in Hong Kong
Wide Evolution Limited	Hong Kong 11 February 2008	HK\$1	100%	–	Investment holding in Hong Kong
福州寶龍房地產發展有限公司 Fuzhou Powerlong Real Estate Development Co., Ltd.	the PRC 21 October 2003	US\$8,000,000	100%	–	Property development and property investment in the PRC
蘇州寶龍房地產發展有限公司 Suzhou Powerlong Real Estate Development Co., Ltd.	the PRC 5 August 2004	US\$10,000,000	100%	–	Property development and property investment in the PRC
鄭州寶龍置業發展有限公司 Zhengzhou Pou Long Real Estate Development Co., Ltd.	the PRC 7 April 2005	RMB700,000,000	100%	–	Property development and property investment in the PRC
山東寶龍實業發展有限公司 Shandong Powerlong Industrial Development Co., Ltd.	the PRC 7 June 2005	RMB100,000,000	100%	–	Property development and property investment in the PRC

## Notes to the Consolidated Financial Statements

## 39 Principal subsidiaries of the Company (continued)

Name	Place and date of incorporation/ establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Attributable equity interest	Equity interests held by non-controlling interests	Principal activities and place of operations
蚌埠寶龍置業有限公司 Bengbu Powerlong Real Estate Co., Ltd.	the PRC 21 February 2006	RMB20,000,000	100%	–	Property development and property investment in the PRC
洛陽寶龍置業發展有限公司 Luoyang Powerlong Property Development Company Limited	the PRC 3 March 2006	RMB80,000,000	100%	–	Property development and property investment in the PRC
寶龍集團(青島)置業發展有限公司 Powerlong Group (Qingdao) Property Development Co., Ltd.	the PRC 13 July 2006	RMB660,000,000	100%	–	Property development and property investment in the PRC
蘇州太倉寶龍大酒店有限公司 Suzhou Taicang Powerlong Hotel Co., Ltd.	the PRC 29 August 2006	RMB80,000,000	100%	–	Hotel operation in the PRC
無錫寶龍房地產發展有限公司 Wuxi Powerlong Real Estate Development Co., Ltd.	the PRC 1 November 2006	US\$15,000,000	80%	20%	Property development and property investment in the PRC
無錫玉祁寶龍置業有限公司 Wuxi Yuqi Powerlong Property Co., Ltd.	the PRC 27 February 2007	US\$15,000,000	100%	–	Property development and property investment in the PRC
青島寶龍房地產發展有限公司 Qingdao Powerlong Real Estate Development Co., Ltd.	the PRC 21 November 2007	US\$60,000,000	100%	–	Property development and property investment in the PRC
宿遷寶龍置業發展有限公司 Suqian Powerlong Property Development Company Limited	the PRC 10 December 2007	RMB100,000,000	100%	–	Property development and property investment in the PRC
煙台寶龍體育置業有限公司 Yantai Powerlong Real Estate Co., Ltd.	the PRC 19 December 2007	US\$54,950,000	100%	–	Property development and property investment in the PRC
新鄉寶龍置業發展有限公司 Xinxiang Powerlong Real Estate Development Co., Ltd.	the PRC 25 December 2007	US\$80,000,000	100%	–	Property development and property investment in the PRC
鹽城寶龍置業發展有限公司 Yancheng Powerlong Real Estate Development Co., Ltd.	the PRC 13 May 2008	US\$75,000,000	100%	–	Property development and property investment in the PRC
常州寶龍置業發展有限公司 Changzhou Powerlong Real Estate Development Co., Ltd.	the PRC 30 June 2008	US\$199,600,000	100%	–	Property development and property investment in the PRC

## Notes to the Consolidated Financial Statements

## 39 Principal subsidiaries of the Company (continued)

Name	Place and date of incorporation/ establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Attributable equity interest	Equity interests held by non-controlling interests	Principal activities and place of operations
青島寶龍置業發展有限公司 Qingdao Powerlong Property Development Company Limited	the PRC 24 November 2009	US\$56,000,000	100%	–	Property development and property investment in the PRC
安溪寶龍置業發展有限公司 Anxi Powerlong Property Development Co., Ltd.	the PRC 27 January 2010	RMB52,500,000	85%	15%	Property development and property investment in the PRC
重慶寶龍長潤置業發展有限公司 Chongqing Powerlong Real Estate Co., Ltd.	the PRC 28 October 2010	US\$30,000,000	100%	–	Property development and property investment in the PRC
杭州寶龍房地產開發有限公司 Hangzhou Powerlong Real Estate Development Co., Ltd.	the PRC 14 December 2010	US\$199,900,000	100%	–	Property development and property investment in the PRC
晉江市晉龍實業發展有限公司 Jinjiang Jinlong Industrial Development Co., Ltd.	the PRC 20 December 2010	RMB100,000,000	100%	–	Property development and property investment in the PRC
天津寶龍城房地產開發有限公司 Tianjin Powerlong City Real Estate Development Co., Ltd.	the PRC 9 March 2011	RMB300,000,000	100%	–	Property development and property investment in the PRC
上海寶龍華睿房地產開發有限公司 Shanghai Powerlong Huarui Real Estate Development Co., Ltd.	the PRC 23 March 2011	RMB100,000,000	100%	–	Property development and property investment in the PRC
天津寶龍園房地產開發有限公司 Tianjin Powerlong Garden Real Estate Development Co., Ltd.	the PRC 11 April 2011	RMB100,000,000	100%	–	Property development and property investment in the PRC
上海寶龍康晟房地產發展有限公司 Shanghai Powerlong Kangsheng Real Estate Development Co., Ltd.	the PRC 11 August 2011	RMB100,000,000	100%	–	Property development and property investment in the PRC
鎮江寶龍置業發展有限公司 Zhenjiang Powerlong Property Development Co., Ltd.	the PRC 9 November 2011	US\$40,000,000	100%	–	Property development and property investment in the PRC
煙台寶龍置業發展有限公司 Yantai Powerlong Property Development Co., Ltd.	the PRC 6 June 2012	US\$15,000,000	100%	–	Property development and property investment in the PRC
青島寶龍英聚置地發展有限公司 Qingdao Powerlong Yingju Real Estate Development Co., Ltd.	the PRC 5 June 2013	US\$20,000,000	75%	25%	Property development and property investment in the PRC

## Notes to the Consolidated Financial Statements

## 39 Principal subsidiaries of the Company (continued)

Name	Place and date of incorporation/ establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Attributable equity interest	Equity interests held by non-controlling interests	Principal activities and place of operations
青島寶龍英畧文化旅遊開發有限公司 Qingdao Powerlong Yingju Cultural Tourism Development Co., Ltd	the PRC 7 June 2013	US\$15,000,000	75%	25%	Property development and property investment in the PRC
上海寶龍康駿房地產開發有限公司 Shanghai Powerlong Kangjun Real Estate Development Co., Ltd	the PRC 30 July 2013	RMB100,000,000	100%	–	Property development and property investment in the PRC
淮安寶龍建設發展有限公司 Huainan Powerlong Construction Development Co. Ltd.	the PRC 3 September 2013	US\$30,000,000	100%	–	Property development and property investment in the PRC
煙台寶龍房地產開發有限公司 Yantai Powerlong Real Estate Development Co., Ltd.	the PRC 8 November 2013	US\$15,000,000	100%	–	Property development and property investment in the PRC
富陽寶龍房地產開發有限公司 Fuyang Powerlong Real Estate Development Co., Ltd.	the PRC 30 October 2013	US\$57,000,000	100%	–	Property development and property investment in the PRC
上海康睿房地產發展有限公司 Shanghai Kangrui Real Estate Development Co., Ltd	the PRC 27 January 2014	RMB10,000,000	100%	–	Property development and property investment in PRC
永春寶龍房地產開發有限公司 Yongchun Powerlong Real Estate Development Co., Ltd	the PRC 15 January 2014	RMB150,000,000	51%	49%	Property development and property investment in PRC
東營寶龍房地產開發有限公司 Dongying Powerlong Real Estate Development Co., Ltd	the PRC 14 February 2014	RMB338,000,000	100%	–	Property development and property investment in PRC
上海寶龍瑞勝房地產開發有限公司 Shanghai Powerlong Ruisheng Real Estate Development Co., Ltd	the PRC 7 March 2014	RMB180,000,000	100%	–	Property development and property investment in PRC
上海寶龍富嘉房地產開發有限公司 Shanghai Powerlong Fujia Real Estate Development Co., Ltd	the PRC 9 July 2014	RMB50,000,000	100%	–	Property development and property investment in PRC

The above table lists the principal subsidiaries of the Group which, in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The names of certain of the companies referred to in these consolidated financial statements represent management's best effort in translation of the Chinese names of these companies as no English names have been registered or available. The subsidiaries established in the PRC in the above list are limited liability companies.

# Condensed Consolidated Interim Balance Sheet

		30 June 2015 Unaudited RMB'000	31 December 2014 Audited RMB'000
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	6	2,019,850	1,898,666
Land use rights	6	1,018,818	797,138
Investment properties	7	26,400,985	24,381,596
Investments accounted for using equity method	13	1,411,904	1,548,554
Deferred income tax assets		333,701	380,313
Available-for-sale financial assets	12	180,000	–
		<b>31,365,258</b>	29,006,267
<b>Current assets</b>			
Properties under development	8	14,555,957	13,668,618
Completed properties held for sale	9	8,291,907	6,162,421
Trade and other receivables	10	2,214,502	2,196,727
Prepayments	11	679,061	852,374
Prepaid taxes		379,534	300,334
Available-for-sale financial assets	12	17,190	16,042
Financial assets at fair value through profit or loss		–	1,500
Restricted cash	14	647,959	603,687
Cash and cash equivalents	15	4,349,926	4,345,757
		<b>31,136,036</b>	28,147,460
<b>Total assets</b>		<b>62,501,294</b>	57,153,727
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital and premium	16	2,979,696	2,979,696
Other reserves	17	668,491	664,827
Retained earnings		15,746,360	14,965,316
		<b>19,394,547</b>	18,609,839
<b>Perpetual Capital Instruments</b>	18	1,304,531	1,302,139
<b>Non-controlling interests</b>		737,786	697,504
<b>Total equity</b>		<b>21,436,864</b>	20,609,482

## Condensed Consolidated Interim Balance Sheet

		30 June 2015 Unaudited RMB'000	31 December 2014 Audited RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	19	14,663,620	14,294,043
Deferred income tax liabilities		3,489,040	3,314,613
Derivative financial instruments	20	53,025	81,178
		<b>18,205,685</b>	17,689,834
<b>Current liabilities</b>			
Trade and other payables	21	10,522,744	7,727,082
Advances from customers		5,153,353	4,641,997
Current income tax liabilities		2,178,184	2,194,391
Borrowings	19	4,985,524	4,290,941
Derivative financial instruments	20	18,940	–
		<b>22,858,745</b>	18,854,411
<b>Total liabilities</b>		<b>41,064,430</b>	36,544,245
<b>Total equity and liabilities</b>		<b>62,501,294</b>	57,153,727
<b>Net current assets</b>		<b>8,277,291</b>	9,293,049
<b>Total assets less current liabilities</b>		<b>39,642,549</b>	38,299,316

Hoi Kin Hong  
Director

Hoi Wa Fong  
Director

The notes on pages 27 to 64 form an integral part of this unaudited condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Comprehensive Income

	Note	Six months ended 30 June	
		2015 Unaudited RMB'000	2014 Unaudited RMB'000
Revenue	5	<b>4,728,402</b>	4,422,701
Cost of sales	22	<b>(3,202,764)</b>	(3,130,748)
<b>Gross profit</b>		<b>1,525,638</b>	1,291,953
Fair value gains on investment properties – net	7	<b>701,316</b>	214,256
Selling and marketing costs	22	<b>(209,604)</b>	(151,340)
Administrative expenses	22	<b>(350,854)</b>	(333,126)
Other gains/(losses) – net	23	<b>13,010</b>	(29,357)
Exchange gains – net	24	<b>5,139</b>	6,075
<b>Operating profit</b>		<b>1,684,645</b>	998,461
Finance income/(costs) – net	25	<b>2,587</b>	(73,581)
Share of profit of investments accounted for using equity method	13	<b>41,799</b>	52,375
<b>Profit before income tax</b>		<b>1,729,031</b>	977,255
Income tax expenses	26	<b>(585,537)</b>	(260,823)
<b>Profit for the period</b>		<b>1,143,494</b>	716,432
<b>Other comprehensive income</b>			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Change in fair value of available-for-sale financial assets	12,17	<b>1,148</b>	766
<b>Total other comprehensive income for the period, net of tax</b>		<b>1,148</b>	766
<b>Total comprehensive income for the period</b>		<b>1,144,642</b>	717,198
<b>Profit attributable to:</b>			
Owners of the Company		<b>1,030,458</b>	758,823
Holder of Perpetual Capital Instruments		<b>72,754</b>	972
Non-controlling interests		<b>40,282</b>	(43,363)
		<b>1,143,494</b>	716,432
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<b>1,031,606</b>	759,589
Holder of Perpetual Capital Instruments		<b>72,754</b>	972
Non-controlling interests		<b>40,282</b>	(43,363)
		<b>1,144,642</b>	717,198
Earnings per share for profit attributable to owners of the Company during the period (expressed in RMB cents per share)	27		
– Basic		<b>26.075</b>	19.170
– Diluted		<b>26.032</b>	19.158

The notes on pages 27 to 64 form an integral part of this unaudited condensed consolidated interim financial information.



## Condensed Consolidated Interim Statement of Changes in Equity

Attributable to owners of the Company

	Share capital and premium RMB'000 (Note 16)	Other reserves RMB'000 (Note 17)	Retained earnings RMB'000	Total RMB'000	Perpetual Capital Instruments RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
<b>Six months ended</b>							
<b>30 June 2015 (Unaudited)</b>							
<b>Balance at 1 January 2015</b>	<b>2,979,696</b>	<b>664,827</b>	<b>14,965,316</b>	<b>18,609,839</b>	<b>1,302,139</b>	<b>697,504</b>	<b>20,609,482</b>
Comprehensive income:							
Profit for the period	-	-	1,030,458	1,030,458	72,754	40,282	1,143,494
Other comprehensive income for the period	-	1,148	-	1,148	-	-	1,148
Total comprehensive income for the period	-	1,148	1,030,458	1,031,606	72,754	40,282	1,144,642
Transactions with owners:							
Dividends	-	-	(249,414)	(249,414)	-	-	(249,414)
Share Award Scheme – Value of employee services	-	2,516	-	2,516	-	-	2,516
Distribution to holders of Perpetual Capital Instruments	-	-	-	-	(70,362)	-	(70,362)
Total transactions with owners	-	2,516	(249,414)	(246,898)	(70,362)	-	(317,260)
<b>Balance at 30 June 2015</b>	<b>2,979,696</b>	<b>668,491</b>	<b>15,746,360</b>	<b>19,394,547</b>	<b>1,304,531</b>	<b>737,786</b>	<b>21,436,864</b>

## Condensed Consolidated Interim Statement of Changes in Equity

	Attributable to owners of the Company						
	Share capital and premium	Other reserves	Retained earnings	Total	Perpetual Capital Instruments	Non- controlling interests	Total equity
	RMB'000 (Note 16)	RMB'000 (Note 17)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Six months ended</b>							
<b>30 June 2014 (Unaudited)</b>							
<b>Balance at 1 January 2014</b>	3,035,471	512,464	13,589,210	17,137,145	–	508,988	17,646,133
Comprehensive income:							
Profit/(loss) for the period	–	–	758,823	758,823	972	(43,363)	716,432
Other comprehensive income for the period	–	766	–	766	–	–	766
Total comprehensive income for the period	–	766	758,823	759,589	972	(43,363)	717,198
Transactions with owners:							
Buy-back of shares of the Company	(48,960)	–	–	(48,960)	–	–	(48,960)
Pre-IPO Share Option Scheme – Value of employee services	–	1,136	–	1,136	–	–	1,136
Share Award Scheme – value of employee services	–	2,717	–	2,717	–	–	2,717
Purchase of shares held for Share Award Scheme	(6,813)	–	–	(6,813)	–	–	(6,813)
Issuance of Perpetual Capital Instruments	–	–	–	–	700,000	–	700,000
Capital contribution from non-controlling interests	–	–	–	–	–	73,500	73,500
Total transactions with owners	(55,773)	3,853	–	(51,920)	700,000	73,500	721,580
<b>Balance at 30 June 2014</b>	<b>2,979,698</b>	<b>517,083</b>	<b>14,348,033</b>	<b>17,844,814</b>	<b>700,972</b>	<b>539,125</b>	<b>19,084,911</b>

The notes on pages 27 to 64 form an integral part of this unaudited condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Cash Flows

	Six months ended 30 June	
	2015	2014
Note	Unaudited RMB'000	Unaudited RMB'000
<b>Cash flows from operating activities</b>		
Cash generated from operations	1,299,160	231,385
PRC corporate income tax paid	(228,263)	(284,509)
PRC land appreciation tax paid	(231,643)	(186,313)
Interest paid	(835,635)	(777,377)
<b>Cash used in operating activities – net</b>	<b>3,619</b>	<b>(1,016,814)</b>
<b>Cash flows from investing activities</b>		
Payments for addition of property and equipment	(73,970)	(92,222)
Payments for addition of land use rights	(73,844)	(200,615)
Payments for addition of investment properties	(409,936)	(713,233)
Proceeds from disposal of equipment	161	785
Acquisition of a subsidiary	(146,997)	–
Purchase of available-for-sale financial assets	(180,000)	–
Capital injection to joint ventures	–	(752,492)
Disposal of available-for-sale financial assets	–	14,500
Progressive proceeds from disposal of a subsidiary	–	3,780
Other cash generated from/(used in) investing activities – net	11,185	(68,267)
<b>Cash used in investing activities – net</b>	<b>(873,401)</b>	<b>(1,807,764)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	5,326,972	3,143,867
Repayments of borrowings	(4,716,395)	(1,489,271)
Decrease of guarantee deposits	57,035	79,760
Cash advances from related parties	893,678	318,888
Repayments of cash advances to related parties	(616,943)	–
Distribution to the holders of Perpetual Capital Instruments	(70,362)	–
Repurchase of senior notes	–	(20,378)
Net proceeds from issuance of Perpetual Capital Instruments	–	700,000
Capital injection by non-controlling interests	–	73,500
Buy-back of shares of the Company	–	(48,960)
<b>Cash generated from financing activities – net</b>	<b>873,985</b>	<b>2,757,406</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4,203</b>	<b>(67,172)</b>
Cash and cash equivalents at beginning of the period	4,345,757	4,434,449
Effect of foreign exchange rate changes	(34)	360
<b>Cash and cash equivalents at end of the period</b>	<b>4,349,926</b>	<b>4,367,637</b>

The notes on pages 27 to 64 form an integral part of this unaudited condensed consolidated interim financial information.

# Notes to the Condensed Consolidated Interim Financial Information

## 1 GENERAL INFORMATION

Powerlong Real Estate Holdings Limited (the "Company") was incorporated in the Cayman Islands on 18 July 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company's principal activity is investment holding. The Company and its subsidiaries (together, the "Group") is principally engaged in property development, property investment, property management, and other property development related services in the People's Republic of China (the "PRC").

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 14 October 2009.

This condensed consolidated interim financial information for the six months ended 30 June 2015 ("Interim Financial Information") was approved for issue by the board of directors (the "Board") of the Company on 18 August 2015.

The Interim Financial Information has not been audited.

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Interim Financial Information has been prepared in accordance with HKAS 34 "Interim Financial Reporting". The Interim Financial Information should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014 as described in those annual financial statements.

### (a) Amended standards and interpretations adopted by the Group

Amendment to HKAS19	Defined benefit plans
Annual improvements 2012	2010-2012 cycle of the annual improvements project
Annual improvements 2013	2011-2013 cycle of the annual improvements project

The adoption of the above amended standards and interpretations did not have any material impact on the Interim Financial Information except for disclosure.

**Notes to the Condensed Consolidated Interim Financial Information****2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

- (b) The following new standards and interpretations and amendments to standards have been issued but are not effective for the six months ended 30 June 2015 and have not been early adopted:

		<b>Effective for annual periods beginning on or after</b>
HKFRS 14	Regulatory deferral accounts	1 January 2016
Amendment to HKFRS 11	Accounting for acquisitions of interest in joint operation	1 January 2016
Amendment to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendment to HKAS 16 and HKAS 41	Agriculture: bearer plants	1 January 2016
Amendment to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
HKAS 27	Equity method in separate financial statements	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception	1 January 2016
Amendments to HKAS 1	Disclosure initiative	1 January 2016
Annual improvements 2014	2012-2014 cycle of the annual improvements	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
HKFRS 9	Financial instruments	1 January 2018

Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted in.

- (c) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

**3 ESTIMATES**

The preparation of the Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2014, with the exception of changes in estimates that are required in determining the provision for income taxes.

## Notes to the Condensed Consolidated Interim Financial Information

### 4 FINANCIAL RISK MANAGEMENT

#### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group's businesses are principally conducted in RMB. As at 30 June 2015, major non-RMB assets and liabilities mainly comprised the borrowings denominated in US\$ or HK\$ totalling RMB6,256 million (as at 31 December 2014: RMB4,880 million). The Group has not entered into any forward exchange contract to hedge its exposure to foreign exchange risk.

The Interim Financial Information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

There have been no changes in the risk management department or in any risk management policies since year end.

#### 4.2 Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing, including short-term and long-term bank loans and issuance of senior notes. The current economic conditions continue to create uncertainty particularly over (a) the level of demand of the Group's products; and (b) the availability of financial resources for the foreseeable future.

Management seeks to effectively manage future cash flows and reduce exposure to unexpected adverse changes in economic conditions through a number of alternative plans, including adopting more flexible approach to pricing for property sales, adjusting development time table to ensure that the Group has available resources to finance projects of the Group, implementing cost control measures, seeking co-developers to jointly develop certain projects, generating additional cash inflows through disposal of certain investment properties at commercially acceptable prices, and renegotiating payment terms with counterparties in certain contractual land acquisition arrangements. The Group, will base on its assessment of the relevant future costs and benefits, pursue such plans as are appropriate. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.

## Notes to the Condensed Consolidated Interim Financial Information

## 4 FINANCIAL RISK MANAGEMENT (continued)

## 4.2 Liquidity risk (continued)

The table below set out the Group's financial liabilities by relevant maturity grouping at each balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows. Trade and other payables due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 30 June 2015					
Borrowings (Note (a))	6,513,284	8,016,602	6,761,620	1,814,428	23,105,934
Trade and other payables (Note (b))	10,336,207	–	–	–	10,336,207
Derivative financial instruments	18,940	–	53,025	–	71,965
Guarantees for borrowings of joint ventures	1,706,737	620,893	432,165	111,347	2,871,142
Financial guarantee contracts (Note (c))	7,116,037	–	–	–	7,116,037
	<b>25,691,205</b>	<b>8,637,495</b>	<b>7,246,810</b>	<b>1,925,775</b>	<b>43,501,285</b>
At 31 December 2014					
Borrowings (Note (a))	5,236,596	7,304,651	6,406,500	2,055,889	21,003,636
Trade and other payables (Note (b))	7,479,196	–	–	–	7,479,196
Derivative financial instruments	–	27,043	54,135	–	81,178
Guarantees for borrowings of joint ventures	502,531	1,298,673	92,540	–	1,893,744
Financial guarantee contracts (Note (c))	6,462,924	–	–	–	6,462,924
	<b>19,681,247</b>	<b>8,630,367</b>	<b>6,553,175</b>	<b>2,055,889</b>	<b>36,920,678</b>

## Notes:

- (a) Interest on borrowings is calculated on principal of borrowings held as at 30 June 2015 and 31 December 2014, respectively. Floating-rate interest is estimated using the current interest rate as at 30 June 2015 and 31 December 2014, respectively.
- (b) It represents payables excluding salaries payable and other taxes payables.
- (c) The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments (Note 29).

## Notes to the Condensed Consolidated Interim Financial Information

## 4 FINANCIAL RISK MANAGEMENT (continued)

## 4.3 Fair value estimation

The different levels of fair value estimation have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2015 and 31 December 2014.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>At 30 June 2015</b>				
Financial assets:				
Available-for-sale financial assets (Note 12)	–	–	197,190	197,190
Financial liabilities:				
Derivative financial instruments	–	71,965	–	71,965
<b>At 31 December 2014</b>				
Financial assets:				
Financial assets at fair value through profit or loss	1,500	–	–	1,500
Available-for-sale financial assets (Note 12)	–	–	16,042	16,042
	1,500	–	16,042	17,542
Financial liabilities:				
Derivative financial instruments (Note 20)	–	81,178	–	81,178

There were no transfers between levels during the period.

There were no other changes in valuation techniques during the period.



## Notes to the Condensed Consolidated Interim Financial Information

### 4 FINANCIAL RISK MANAGEMENT (continued)

#### 4.3 Fair value estimation (continued)

##### (a) Financial instruments in level 1

The Group's financial assets at fair value through profit or loss as at 31 December 2014, which are listed securities in Hong Kong, have been disposed of during the period. The fair value of the said financial assets is determined by reference to their quoted market prices at the balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These financial assets at fair value through profit or loss are included in level 1. The quoted market price used for financial assets held by the Group is the current bid price.

##### (b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

##### (c) Financial instruments in level 3

The fair value of financial instrument included in level 3 is disclosed in Note 12.

### 5 SEGMENT INFORMATION

The executive directors, as the chief operating decision-makers ("CODM") of the Group review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into four business segments: property development, property investment, property management services and other property development related services. As the CODM considers most of the Group's consolidated revenue and results are attributable to the market in the PRC and the Group's consolidated assets are substantially located in the PRC, no geographical information is presented.

## Notes to the Condensed Consolidated Interim Financial Information

## 5 SEGMENT INFORMATION (continued)

The segment results and other segment items included in the profit for the six months ended 30 June 2015 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Gross segment revenue	4,073,434	259,886	258,416	151,411	-	4,743,147
Inter-segment revenue	-	-	(14,745)	-	-	(14,745)
Revenue	4,073,434	259,886	243,671	151,411	-	4,728,402
Segment results	1,051,714	818,763	1,710	(49,183)	-	1,823,004
Other gains – net						13,010
Share of profit of investments accounted for using equity method						41,799
Unallocated operating costs						(151,369)
Finance income – net						2,587
Profit before income tax						1,729,031
Income tax expenses						(585,537)
Profit for the period						1,143,494
Capital expenditure	280,105	1,318,073	966	136,791	-	1,735,935
Depreciation	8,897	-	2,286	54,559	-	65,742
Amortisation of land use rights recognised as expenses	-	-	-	9,095	-	9,095
Fair value gains on investment properties – net	-	701,316	-	-	-	701,316

## Notes to the Condensed Consolidated Interim Financial Information

## 5 SEGMENT INFORMATION (continued)

The segment results and other segment items included in the profit for the six months ended 30 June 2014 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Gross segment revenue	3,770,979	212,233	238,454	216,112	-	4,437,778
Inter-segment revenue	-	-	(15,077)	-	-	(15,077)
Revenue	3,770,979	212,233	223,377	216,112	-	4,422,701
Segment results	778,869	345,822	5,988	(19,131)	(1,926)	1,109,622
Other losses – net						(29,357)
Share of profit of investments accounted for using equity method						52,375
Unallocated operating costs						(81,804)
Finance cost – net						(73,581)
Profit before income tax						977,255
Income tax expenses						(260,823)
Profit for the period						716,432
Capital expenditure	16,430	1,215,264	1,210	404,898	-	1,637,802
Depreciation	11,888	-	2,234	49,070	-	63,192
Amortisation of land use rights recognised as expenses	-	-	-	8,306	-	8,306
Fair value gains on investment properties – net	-	214,256	-	-	-	214,256

Segment assets and liabilities as at 30 June 2015 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	31,339,014	27,322,235	801,955	4,190,292	(4,057,953)	59,595,543
Other assets						2,905,751
Total assets						62,501,294
Segment liabilities	11,130,868	1,701,627	568,512	2,606,380	(4,057,953)	11,949,434
Other liabilities						29,114,996
Total liabilities						41,064,430
Interest in joint ventures	1,376,573	-	-	-	-	1,376,573
Interest in an associate	35,331	-	-	-	-	35,331

**Notes to the Condensed Consolidated Interim Financial Information****5 SEGMENT INFORMATION (continued)**

Segment assets and liabilities as at 31 December 2014 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other property development related services RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	28,042,279	25,386,731	784,624	5,319,214	(4,053,115)	55,479,733
Other assets						1,673,994
Total assets						57,153,727
Segment liabilities	10,489,800	1,267,592	576,018	1,258,796	(4,053,115)	9,539,091
Other liabilities						27,005,154
Total liabilities						36,544,245
Interest in joint ventures	1,512,375	–	–	–	–	1,512,375
Interest in an associate	36,179	–	–	–	–	36,179

There are no differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

Sales between segments are carried out in accordance with the terms of the underlying agreements. The revenue from external parties reported to the Board is measured in a manner consistent with that in the condensed consolidated interim statement of comprehensive income.

The amounts provided to the CODM with respect to total assets and liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment.

Segment assets consist primarily of property and equipment, land use rights, investment properties, properties under development, completed properties held for sale, receivables and cash and cash equivalents.

Segment liabilities consist of operating liabilities.

Capital expenditure comprises additions to property and equipment, land use rights and investment properties.

## Notes to the Condensed Consolidated Interim Financial Information

## 6 PROPERTY AND EQUIPMENT AND LAND USE RIGHTS

	Property and equipment RMB'000	Land use rights RMB'000
<b>Six months ended 30 June 2015</b>		
Opening net book amounts as at 1 January 2015	1,898,666	797,138
Additions	187,087	230,775
Disposals	(161)	–
Depreciation/amortisation charges	(65,742)	(9,095)
	<b>2,019,850</b>	<b>1,018,818</b>
<b>Six months ended 30 June 2014</b>		
Opening net book amounts as at 1 January 2014	1,694,201	569,862
Additions	154,934	267,604
Disposals	(785)	–
Depreciation/amortisation charges	(63,192)	(8,306)
	1,785,158	829,160

As at 30 June 2015, properties with net book amounts totalling RMB1,123,813,000 (31 December 2014: RMB1,360,154,000) and land use rights of RMB610,052,000 (31 December 2014: RMB274,852,000) were pledged as collateral for the Group's borrowings (Note 19).

The capitalisation rate of borrowings for the six months ended 30 June 2015 was 8.58% (six months ended 30 June 2014: 8.82%).

Land use rights comprise cost of acquiring rights to use certain land, which are all located in the PRC, mainly for hotel buildings and other self-use buildings over fixed periods.

## Notes to the Condensed Consolidated Interim Financial Information

## 7 INVESTMENT PROPERTIES

	Completed investment properties RMB'000	Investment properties under construction RMB'000	Total RMB'000
<b>Six months ended 30 June 2015</b>			
Opening amount as at 1 January 2015	19,138,427	5,243,169	24,381,596
Additions	5,302	1,312,771	1,318,073
Transfers	1,434,411	(1,434,411)	–
Fair value (losses)/gains – net	(563,993)	1,265,309	701,316
Closing amount as at 30 June 2015	20,014,147	6,386,838	26,400,985
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the period	(563,993)	1,265,309	701,316
<b>Six months ended 30 June 2014</b>			
Opening amount as at 1 January 2014	18,433,700	1,156,630	19,590,330
Additions	67,792	1,147,472	1,215,264
Fair value (losses)/gains – net	(243,294)	457,550	214,256
Closing amount as at 30 June 2014	18,258,198	2,761,652	21,019,850
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the period	(243,294)	457,550	214,256

Investment properties as at 30 June 2015 are held in the PRC on leases between 10 to 50 years (31 December 2014: same).

The capitalisation rate of borrowings for the six months ended 30 June 2015 was 8.58% (six months ended 30 June 2014: 8.82%).

As at 30 June 2015, investment properties of RMB17,332,384,000 (31 December 2014: RMB20,554,430,000) were pledged as collateral for the Group's borrowings (Note 19).

## Notes to the Condensed Consolidated Interim Financial Information

### 7 INVESTMENT PROPERTIES (continued)

#### (i) Fair value hierarchy

The Group has appointed an independent qualified valuer to assess the fair value of the investment properties with significant changes in fair value during the period. The Group determines the fair value of investment properties as at 30 June 2015 by reference to the assessment performed by the independent qualified valuer. The revaluation gains or losses are included in 'Fair value gains on investment properties – net' in the statement of comprehensive income.

As at 30 June 2015, as certain of significant inputs used in the determination of fair value of investment properties are derived from unobservable market data, the fair value of all investment properties of the Group are included in level 3 of the fair value measurement hierarchy.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There are no transfers in or out of fair value hierarchy levels during the period.

#### (ii) Valuation processes of the Group

The Group's certain investment properties were valued at 30 June 2015 by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports to the senior management of the Group. Discussions of valuation processes and results are held between the management and valuer at least once every six months, in line with the Group's interim and annual reporting dates.

#### (iii) Valuation techniques

The direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

Fair values of completed properties are generally derived using the term and reversion method. This method is based on the tenancy agreements as at the respective valuation dates. The rental income derived within the tenancy agreements are discounted by adopting term yields and the potential reversionary income are discounted by adopting appropriate reversion yields for the period beyond the rental period in the tenancy agreements. Potential reversionary income and the reversion yields are derived from analysis prevailing market rents and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

Fair values of the investment properties under development are generally derived using the residual method. This valuation method is essentially a means of valuing the land by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completed as at the date of valuation.

The Group has also used the sale comparison approach by making reference to the sales transactions or asking price evidences of comparable properties as available in the market to cross check the valuation result.

There were no changes to the valuation techniques during the period.

## Notes to the Condensed Consolidated Interim Financial Information

## 8 PROPERTIES UNDER DEVELOPMENT

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
Properties under development include:		
– Construction costs and capitalised expenditures	<b>4,881,089</b>	3,942,009
– Interests capitalised	<b>2,093,805</b>	2,119,465
– Land use rights	<b>7,581,063</b>	7,607,144
	<b>14,555,957</b>	13,668,618
Land use rights:		
Outside Hong Kong, held on leases of		
– Over 50 years	<b>1,961,718</b>	2,102,250
– Between 10 to 50 years	<b>5,619,345</b>	5,504,894
	<b>7,581,063</b>	7,607,144

The properties under development are all located in the PRC and expected to be completed within an operating cycle, most of which are expected to be completed within 12 months.

As at 30 June 2015, properties under development of approximately RMB4,285,020,000 (31 December 2014: RMB5,102,438,000) were pledged as collateral for the Group's borrowings (Note 19).

The capitalisation rate of borrowings for the six months ended 30 June 2015 was 8.58% (six months ended 30 June 2014: 8.82%).

## 9 COMPLETED PROPERTIES HELD FOR SALE

The completed properties held for sale are all located in the PRC.

As at 30 June 2015, completed properties held for sale of approximately RMB3,015,849,000 (31 December 2014: RMB2,039,943,000) were pledged as collateral for the Group's borrowings (Note 19).



## Notes to the Condensed Consolidated Interim Financial Information

## 10 TRADE AND OTHER RECEIVABLES

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade receivables (Note (a))	<b>1,049,361</b>	1,214,071
– Related parties (Note 31 (c))	<b>2,495</b>	38,395
– Third parties	<b>1,046,866</b>	1,175,676
Less: provision for impairment of trade receivables (Note (a))	<b>(20,250)</b>	(26,558)
Trade receivables – net	<b>1,029,111</b>	1,187,513
Deposits for acquisition of land use rights	<b>41,600</b>	41,600
Other receivables from:	<b>1,143,791</b>	967,614
– Related parties (Note 31 (c))	<b>287,751</b>	298,936
– Third parties	<b>856,040</b>	668,678
	<b>2,214,502</b>	2,196,727

- (a) Trade receivables are mainly derived from sales of properties and rental income. Sales proceeds and rental fee are paid in accordance with the terms of the related sales and purchase agreements and rental contracts. As at 30 June 2015 and 31 December 2014, the ageing analysis of the trade receivables of the Group based on billing date is as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Not due	<b>368,562</b>	347,694
Within 90 days	<b>416,311</b>	533,945
Over 90 days	<b>264,488</b>	332,432
	<b>1,049,361</b>	1,214,071

As at 30 June 2015, trade receivables of RMB72,144,000 (31 December 2014: RMB37,741,000) were past due but not impaired. As the Group normally holds collateral of the properties before collection of the outstanding balances, the Group considers that these past due trade receivables would be recovered and no provision was made.

	30 June 2015 RMB'000	31 December 2014 RMB'000
Over 90 days	<b>72,144</b>	37,741

As of 30 June 2015, trade receivables of RMB21,744,000 were past due and impaired (31 December 2014: RMB37,553,000) and provision of RMB20,250,000 (31 December 2014: RMB26,558,000) has been made. The individually impaired receivables mainly relate to the customers who have been in severe financial difficulties and irrecoverable.

## Notes to the Condensed Consolidated Interim Financial Information

## 10 TRADE AND OTHER RECEIVABLES (continued)

(a) (continued)

Movements on the provision for impairment of trade receivables are as follows:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
At 1 January	26,558	11,735
Provision for receivables impairment	8,281	5,402
Receivables written off during the period as uncollectible	(14,589)	(218)
At 30 June	20,250	16,919

(b) As at 30 June 2015 and 31 December 2014, the fair value of trade and other receivables approximated their carrying amounts.

(c) Trade and other receivables are interest free. The Group's trade and other receivables are denominated in RMB.

(d) The maximum exposure to credit risk of the trade and other receivables at the reporting date was the carrying value of each class of receivables.

## 11 PREPAYMENTS

	30 June	31 December
	2015 RMB'000	2014 RMB'000
Acquisition of land use rights (Note (a))	655,462	780,305
Construction materials – third parties	23,599	72,069
	679,061	852,374

(a) Payments on land acquisitions will be made in accordance with the payment terms as stipulated in the land acquisition contracts. The land acquisition costs which are contracted but not provided for are included in commitments (Note 30 (a)).

## Notes to the Condensed Consolidated Interim Financial Information

## 12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Unlisted securities:		
Opening amounts as at 1 January	16,042	30,801
Additions (Note (a))	180,000	–
Changes in fair value (Note 17)	1,148	766
Disposal	–	(14,500)
Closing amounts as at 30 June	197,190	17,067
	30 June 2015 RMB'000	31 December 2014 RMB'000
Non-current unlisted securities:		
– Unlisted insurance company denominated in RMB (Note (a))	180,000	–
Current unlisted securities:		
– Unlisted private trust denominated in Hong Kong dollars (“HK\$”) (Note (b))	17,190	16,042
Total	197,190	16,042

(a) In 2015, the Group invested in a private insurance company in the PRC (the “Investee”). The investment is denominated in RMB with an initial cost of RMB180,000,000. The Group does not have control or significant influence in the investee, therefore the investment was classified as available-for-sale financial assets.

(b) The fair value of unlisted private trust is based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the private trust.

The maximum exposure to credit risk at the reporting date is the carrying value of available-for-sale financial assets. There are no commitment and contingent liabilities relating to the Group’s interests in the available-for-sale financial assets.

These financial assets are not past due or impaired as of 30 June 2015 and 31 December 2014.

## Notes to the Condensed Consolidated Interim Financial Information

## 13 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The amounts recognised in the condensed consolidated interim balance sheet are as follows:

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
Non-current portion:		
Investments in joint ventures	<b>1,376,573</b>	1,512,375
Investments in associate	<b>35,331</b>	36,179
	<b>1,411,904</b>	1,548,554

The amounts recognised in the condensed consolidated interim statement of comprehensive income are as follows:

	<b>Six months ended 30 June</b>	
	<b>2015 RMB'000</b>	2014 RMB'000
Joint ventures	<b>42,647</b>	52,819
Associate	<b>(848)</b>	(444)
	<b>41,799</b>	52,375

## (a) Joint ventures

	<b>Six months ended 30 June</b>	
	<b>2015 RMB'000</b>	2014 RMB'000
At 1 January	<b>1,512,375</b>	1,112,150
Addition	–	752,492
Share of profit	<b>42,647</b>	52,819
Transfer to a subsidiary (Note (i))	<b>(174,463)</b>	–
Elimination of unrealised profits	<b>(3,986)</b>	(10,613)
At 30 June	<b>1,376,573</b>	1,906,848

- (i) In April 2015, the Group acquired 49% equity interest in Xiamen Powerlong Industry Co., Ltd. ("Xiamen Powerlong", a joint venture to the Group prior to the acquisition) at a cash consideration of RMB147,000,000. After the acquisition, Xiamen Powerlong became a wholly owned subsidiary of the Group. The consideration approximated the fair value of the acquired net assets of Xiamen Powerlong.

## Notes to the Condensed Consolidated Interim Financial Information

## 13 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

## (a) Joint ventures (continued)

(ii) Commitments and contingent liabilities in respect of the joint ventures

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
Proportionate interest of commitments	<b>447,931</b>	748,320
Proportionate interest of financial guarantee contracts	<b>239,777</b>	43,569
Guarantees for borrowings of joint ventures	<b>2,431,330</b>	1,670,730

(iii) The Group's share of the results in joint ventures and their aggregated assets and liabilities are shown below:

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
Total assets	<b>8,517,843</b>	7,400,068
Total liabilities	<b>(6,315,191)</b>	(4,952,079)
Net assets	<b>2,202,652</b>	2,447,989
Less: equity attributable to the joint venture partners	<b>(795,185)</b>	(897,498)
Less: elimination of unrealised profits	<b>(30,894)</b>	(38,116)
Interests in joint ventures	<b>1,376,573</b>	1,512,375

## (b) Associate

The associate is not material to the Group as at 30 June 2015.

## Notes to the Condensed Consolidated Interim Financial Information

## 14 RESTRICTED CASH

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
Guarantee deposits for construction projects (Note (a))	<b>132,288</b>	104,600
Guarantee deposits for bank acceptance notes (Note (b))	<b>433,258</b>	353,145
Guarantee deposits for bank borrowings (Note (c))	<b>77,988</b>	135,023
Others	<b>4,425</b>	10,919
	<b>647,959</b>	603,687
Denominated in		
– RMB	<b>646,111</b>	601,627
– HK\$	<b>1,848</b>	2,060
	<b>647,959</b>	603,687

- (a) In accordance with relevant documents issued by local State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place certain amount of presale proceeds of properties at designated bank accounts as guarantee deposits for constructions of related properties. The deposits can only be used for purchases of construction materials and payments of construction fee of the relevant property projects when approval from the local State-Owned Land and Resource Bureau is obtained. The remaining balances of the deposits will be released after completion of related pre-sold properties or issuance of the real estate ownership certificate of the properties, whichever is the earlier.
- (b) As at 30 June 2015, the Group placed cash deposits of approximately RMB433,258,000 (31 December 2014: RMB353,145,000) with designated banks as guarantee for the issuance of bank acceptance notes.
- (c) As at 30 June 2015, the Group has placed cash deposits of approximately RMB77,988,000 (31 December 2014: RMB135,023,000) with designated banks as security for bank borrowings (Note 19).

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

## 15 CASH AND CASH EQUIVALENTS

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
Cash at bank and in hand:		
– Denominated in RMB	<b>4,311,501</b>	4,286,677
– Denominated in HK\$	<b>30,120</b>	5,149
– Denominated in US dollar ("US\$")	<b>8,305</b>	53,931
	<b>4,349,926</b>	4,345,757

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

## Notes to the Condensed Consolidated Interim Financial Information

## 16 SHARE CAPITAL AND PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares HK\$	Equivalent nominal value of ordinary share RMB'000	Share premium RMB'000	Shares held for Share Award Scheme RMB'000 <i>(Note (a))</i>	Total RMB'000
<b>Authorised:</b>						
At 1 January 2014 and 2015, 30 June 2014 and 2015	30,000,000,000	300,000,000				
<b>Issued and fully paid:</b>						
At 1 January 2015 and 30 June 2015	3,997,303,000	39,973,030	35,486	3,035,746	(91,536)	2,979,696
At 1 January 2014	4,048,013,000	40,480,130	35,936	3,084,256	(84,721)	3,035,471
Buy-back of shares of the Company	(50,710,000)	(507,100)	(450)	(48,510)	–	(48,960)
Purchase of shares held for Share Award Scheme	–	–	–	–	(6,813)	(6,813)
At 30 June 2014	3,997,303,000	39,973,030	35,486	3,035,746	(91,534)	2,979,698

- (a) On 2 December 2010 (the "Adoption Date"), the Board approved and adopted a share award scheme in which a number of selected employees and directors of the Group are entitled to participate (the "Share Award Scheme"). The Group has set up a trust (the "Share Award Scheme Trust") for the purpose of administrating the Share Award Scheme. Under the sole discretion of the Board, the Share Award Scheme Trust will acquire the Company's shares from the Stock Exchange, with a maximum number determined by the Board, and hold the shares until they are vested. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of six years commencing on the Adoption Date.

Employees and directors are not entitled to dividends on any awarded shares that are not yet transferred to them.

The Board will implement the Share Award Scheme in accordance with the terms of the Share Award Scheme rules including providing necessary funds to the Share Award Scheme Trust for the purchase of shares up to 2% of the issued share capital of the Company as of the Adoption Date.

As at 30 June 2015, the total unvested shares held by the Share Award Scheme Trust is 45,380,000 (31 December 2014: 45,380,000) (Note 17 (d)).

## Notes to the Condensed Consolidated Interim Financial Information

## 17 OTHER RESERVES

	Merger reserve RMB'000 <i>(Note (a))</i>	Statutory reserves RMB'000 <i>(Note (b))</i>	Share-based compensation reserves RMB'000	Revaluation reserves RMB'000 <i>(Note 12)</i>	Transaction with non- controlling interests RMB'000	Total RMB'000
At 1 January 2015	337,203	36,574	54,824	227,745	8,481	664,827
Share Award Scheme <i>(Note (d))</i>	-	-	2,516	-	-	2,516
Revaluation – net of tax	-	-	-	1,148	-	1,148
At 30 June 2015	337,203	36,574	57,340	228,893	8,481	668,491
At 1 January 2014	337,203	36,448	51,707	78,625	8,481	512,464
Pre – IPO Share Option Scheme <i>(Note (c))</i>	-	-	1,136	-	-	1,136
Share Award Scheme <i>(Note (d))</i>	-	-	2,717	-	-	2,717
Revaluation – net of tax	-	-	-	766	-	766
At 30 June 2014	337,203	36,448	55,560	79,391	8,481	517,083

## (a) Merger reserve

The merger reserve represents the aggregate nominal value of the share capital/paid-in capital of the subsidiaries acquired by the Company from the controlling shareholders less the consideration paid to the controlling shareholders pursuant to the reorganisation undertaken in 2007 for preparation of listing of the Company on the Stock Exchange.



## Notes to the Condensed Consolidated Interim Financial Information

## 17 OTHER RESERVES (continued)

## (b) Statutory reserves

Pursuant to the relevant laws and regulations in the PRC and the provision of the articles of association of the Group's subsidiaries, the Group's subsidiaries which are registered in the PRC shall appropriate certain percentage of profit after tax (after offsetting any accumulated losses brought forward from prior years) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds. Depending on the natures, the reserve funds can be used to set off accumulated losses of the subsidiaries or distribute to equity owners in form of bonus issue.

## (c) Pre-IPO Share Option Scheme

On 16 September 2009, the Company granted share options to certain employees and directors of the Group under a share option scheme (the "Pre-IPO Share Option Scheme"), pursuant to which the option holders are entitled to acquire an aggregate of 40,000,000 shares of the Company at 10% discount to the offer price of HK\$2.75 per share upon the listing date.

Particulars of share options as at 30 June 2015 and 31 December 2014 are as follows:

Vesting period	Expiry dates	Exercise price	Number of outstanding shares as at	
			30 June 2015	31 December 2014
4 years from 16 September 2009	15 September 2015	HK\$2.475	4,388,000	4,468,000
5 years from 16 September 2009	15 September 2016	HK\$2.475	4,388,000	4,468,000
			<b>8,776,000</b>	8,936,000

Movements in the number of share options outstanding are as follows:

	Six months ended 30 June	
	2015	2014
At 1 January	8,936,000	15,468,000
Forfeited	(160,000)	(1,824,000)
At 30 June	<b>8,776,000</b>	13,644,000

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of options granted was HK\$2.16 per option, which was determined using the Binomial Model by an independent valuer.

No expense recognised for employee and directors services received in respect of the Pre-IPO Share Option Scheme for the six months ended 30 June 2015 (six months ended 30 June 2014: RMB1,136,000).

## Notes to the Condensed Consolidated Interim Financial Information

## 17 OTHER RESERVES (continued)

## (d) Share Award Scheme

Movements in the number of shares held for the Share Award Scheme for the six months ended 30 June 2015 and 2014 are as follows:

	Shares held for the Share Award Scheme	Shares having been awarded to employees but held by the Share Award Scheme Trust
At 1 January 2015	33,009,300	12,370,700
Forfeited	586,900	(586,900)
At 30 June 2015	<b>33,596,200</b>	<b>11,783,800</b>
At 1 January 2014	31,295,000	7,058,000
Purchase of shares held for Share Award Scheme	7,027,000	–
Granted to employees and directors	(8,958,000)	8,958,000
Forfeited	1,303,900	(1,303,900)
At 30 June 2014	<b>30,667,900</b>	<b>14,712,100</b>

For the shares granted under the Share Award Scheme, the fair value of the employee services received in exchange for the grant of the awarded shares is recognised as an expense and credited to equity over the period in which the vesting conditions are fulfilled. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted.

The fair value of the awarded shares was calculated based on market prices of the Company's shares as at the respective grant dates. The expected dividends during the vesting periods have been taken into account when assessing the fair value of the awarded shares.

On 6 June 2013, the Company granted an aggregate of 7,502,000 shares to 67 eligible employees and directors pursuant to the Share Award Scheme. On 29 May 2014, the Company granted an aggregate of 8,958,000 shares to 84 eligible employees and directors pursuant to the Share Award Scheme.

## Notes to the Condensed Consolidated Interim Financial Information

## 17 OTHER RESERVES (continued)

## (d) Share Award Scheme (continued)

During the six months end 30 June 2015, an aggregate of 586,900 granted shares (six months ended 30 June 2014: 1,303,900 shares) were forfeited due to the resignation of certain eligible employees. The outstanding awarded shares as at 30 June 2015 were 11,783,800 shares (31 December 2014: 12,370,700 shares).

Particulars of awarded shares as at 30 June 2015 and 31 December 2014 are as follows:

Vesting period	Dates of grant	Market price at grant dates HK\$/share	Number of outstanding shares as at	
			30 June 2015	31 December 2014
3 years	6 June 2013	1.60	2,636,200	2,859,350
4 years	6 June 2013	1.60	2,636,200	2,859,350
2 years	29 May 2014	1.11	3,255,700	3,326,000
3 years	29 May 2014	1.11	3,255,700	3,326,000
			<b>11,783,800</b>	12,370,700

The total expense recognised for employee and directors services received in respect of the Share Award Scheme for the six months ended 30 June 2015 was RMB2,516,000 (six months ended 30 June 2014: RMB2,717,000).

- (e) Revaluation reserves mainly represented the fair value difference of available-for-sale financial assets and valuation gain of commercial properties when they were reclassified from properties held for own use to investment properties.

## 18 PERPETUAL CAPITAL INSTRUMENTS

In 2014, two wholly owned subsidiaries of the Company issued perpetual capital instruments (the "Perpetual Capital Instruments") with the total aggregated principal amount of RMB1,300,000,000. The Perpetual Capital Instruments do not have maturity date and the distribution payments can be deferred at the discretion of the Company. Therefore, the Perpetual Capital Instruments are classified as equity instruments and recorded as part of equity in the consolidated balance sheet. The amount as at 30 June 2015 included the accrued distribution payments of RMB4,531,000 (31 December 2014: RMB2,139,000).

## Notes to the Condensed Consolidated Interim Financial Information

## 19 BORROWINGS

	30 June 2015 RMB'000	31 December 2014 RMB'000
Borrowings included in non-current liabilities:		
Senior notes (Note (a))	<b>3,880,790</b>	3,871,221
– senior notes due September 2017 (“2017 Notes”) (Note (a)(i))	<b>1,519,433</b>	1,514,307
– senior notes due January 2018 (“2018 Notes”) (Note (a)(ii))	<b>1,560,519</b>	1,558,977
– senior notes due May 2016 (“2016 Notes”) (Note (a)(iii))	<b>800,838</b>	797,937
Bank borrowings – secured (Note (b))	<b>11,878,042</b>	9,904,974
Other borrowings – secured (Note (c))	<b>2,180,800</b>	2,245,880
Borrowings under sale and lease back agreement – secured	–	36,569
Less: amounts due within one year	<b>(3,276,012)</b>	(1,764,601)
	<b>14,663,620</b>	14,294,043
Borrowings included in current liabilities:		
Bank borrowings	<b>1,465,702</b>	2,267,443
– secured (Note (b))	<b>1,445,702</b>	2,194,093
– unsecured	<b>20,000</b>	73,350
Other borrowings – secured (Note (c))	<b>243,810</b>	258,897
Current portion of long-term borrowings	<b>3,276,012</b>	1,764,601
	<b>4,985,524</b>	4,290,941
Total borrowings	<b>19,649,144</b>	18,584,984

## (a) Senior notes

## (i) 2017 Notes and derivative financial instruments

On 18 September 2014, the Company issued 10.75%, 3 years senior notes, with an aggregated nominal value of RMB1,500,000,000 at face value (“2017 RMB Notional Amounts”). The net proceeds, after deducting the issuance costs, amounted to RMB1,465,536,000. The 2017 Notes is denominated in RMB.

The 2017 Notes recognised in the balance sheet are calculated as follows:

	Six months ended 30 June 2015 RMB'000
At 1 January	<b>1,514,307</b>
Interest expenses and amortisation of issuance costs	<b>85,087</b>
Repayment of interest	<b>(79,961)</b>
At 30 June	<b>1,519,433</b>

On the issuance date of the above 2017 Notes, the Company entered into certain cross currency swaps (“2017 CCS”) with a bank. According to the agreement, the Company is required to exchange RMB1,500,000,000 with the bank for equivalent US\$244,409,000 (“2017 US\$ Notional Amounts”). The Company has to pay interest at 9.5% per annum based on the 2017 US\$ Notional Amounts at each interest payment date of 2017 Notes. On maturity of 2017 Notes, the Company need to deliver the 2017 US\$ Notional Amounts to the bank in exchange with the 2017 RMB Notional Amounts.

2017 CCS is not designated as a hedging instrument but a derivative financial instrument which is valued at fair value (Note 20).

## Notes to the Condensed Consolidated Interim Financial Information

## 19 BORROWINGS (continued)

## (a) Senior notes (continued)

## (ii) 2018 Notes

On 25 January 2013, the Company issued 11.25%, 5 years senior notes, with an aggregated nominal value of US\$250,000,000 at 98.608% discount to face value. The net proceeds, after deducting the issuance costs, amounted to US\$241,670,000 (equivalent to approximately RMB1,524,717,000). The 2018 Notes is denominated in US\$.

The 2018 Notes recognised in the balance sheet are calculated as follows:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
At 1 January	1,558,977	1,561,245
Interest expenses and amortisation of issuance costs	91,261	91,428
Repayment of interest	(85,522)	(85,830)
Repurchase	–	(14,611)
Foreign exchange (gains)/losses – net	(4,197)	11,051
At 30 June	1,560,519	1,563,283

## (iii) 2016 Notes and derivative financial instruments

On 27 May 2013, the Company issued 9.50%, 3 years senior notes, with an aggregated nominal value of RMB800,000,000 at face value ("RMB Notional Amounts"). The net proceeds, after deducting the issuance costs, amounted to RMB787,522,000. The 2016 Notes is denominated in RMB.

The 2016 Notes recognised in the balance sheet are calculated as follows:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
At 1 January	797,937	797,644
Interest expenses and amortisation of issuance costs	40,664	40,642
Repayment of interest	(37,763)	(38,000)
Repurchase	–	(4,974)
At 30 June	800,838	795,312

On the issuance date of the above 2016 Notes, the Company entered into a cross currency swap ("2016 CCS") with a bank. According to the agreement, the Company is required to exchange RMB800,000,000 with the bank for equivalent US\$130,399,000 ("US\$ Notional Amounts"). The Company need to pay interest at 8.4% per annum based on the US\$ Notional Amounts at each interest payment date of 2016 Notes. On maturity of 2016 Notes, the Company has to deliver the US\$ Notional Amounts to the bank in exchange with the RMB Notional Amounts.

2016 CCS is not designated as a hedging instrument but a derivative financial instrument which is valued at fair value (Note 20).

## Notes to the Condensed Consolidated Interim Financial Information

## 19 BORROWINGS (continued)

## (b) Bank borrowings – secured

As at 30 June 2015, the bank borrowings of RMB13,323,744,000 (31 December 2014: RMB12,099,067,000) were secured by certain property and equipment and land use rights (Note 6), investment properties (Note 7), properties under development (Note 8), completed properties held for sale (Note 9) and restricted cash (Note 14); the secured bank borrowings of RMB3,433,930,500 (31 December 2014: RMB2,411,340,000) were additionally guaranteed by certain related parties (Note 31 (b)(ii)).

## (c) Other borrowings – secured

As at 30 June 2015, borrowings from other non-bank financial institutions of RMB2,424,610,000 (31 December 2014: RMB2,504,777,000) were secured by certain property and equipment and land use rights (Note 6), investment properties (Note 7), properties under development (Note 8) and completed properties held for sale (Note 9); the secured other borrowings of RMB1,240,880,000 (31 December 2014: RMB1,270,880,000) were additionally guaranteed by certain related parties (Note 31 (b)(ii)).

(d) Movements of bank borrowings, other borrowings and borrowings under sale and lease back agreements are analysed as follows:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Opening amounts as at 1 January	14,713,763	11,241,293
Additions of borrowings	5,779,972	3,916,627
Repayments of borrowings	(4,720,512)	(1,539,001)
Net foreign exchange (gains)/losses – net	(4,869)	23,250
Closing amounts as at 30 June	15,768,354	13,642,169

(e) As at 30 June 2015 and 31 December 2014, the Group has the following undrawn borrowing facilities:

	30 June	31 December
	2015 RMB'000	2014 RMB'000
Floating rate:		
– expiring within 1 year	196,200	75,581
– expiring beyond 1 year	379,090	757,710
	575,290	833,291

## Notes to the Condensed Consolidated Interim Financial Information

## 20 DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2015 and 31 December 2014, the Group had the following derivative financial instruments:

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
Non-current portion:		
– 2017 CCS as a liability (Note 19(a)(i))	<b>53,025</b>	54,135
– 2016 CCS as a liability (Note 19(a)(iii))	–	27,043
	<b>53,025</b>	81,178
Current portion:		
– 2016 CCS as a liability (Note 19(a)(iii))	<b>18,940</b>	–

## 21 TRADE AND OTHER PAYABLES

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
Trade payables	<b>4,933,039</b>	3,226,856
– Related parties (Note 31 (c))	<b>14,310</b>	19,471
– Third parties	<b>4,427,370</b>	2,801,559
– Notes payable – third parties	<b>491,359</b>	405,826
Other payables and accruals	<b>4,521,770</b>	3,890,929
– Related parties (Note 31 (c))	<b>2,944,197</b>	2,667,462
– Third parties	<b>1,577,573</b>	1,223,467
Payables for retention fee	<b>367,178</b>	290,554
Payables for acquisition of land use rights	<b>300,732</b>	127,385
Other taxes payable	<b>150,611</b>	191,358
Dividend payable to owners of the Company	<b>249,414</b>	–
	<b>10,522,744</b>	7,727,082

## Notes to the Condensed Consolidated Interim Financial Information

## 21 TRADE AND OTHER PAYABLES (continued)

As at 30 June 2015 and 31 December 2014, the ageing analysis of trade payables of the Group based on invoice date were as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Within 90 days	<b>2,386,336</b>	1,276,894
Over 90 days and within 180 days	<b>1,147,970</b>	869,601
Over 180 days and within 365 days	<b>727,178</b>	272,872
Over 365 days and within 3 years	<b>671,555</b>	807,489
	<b>4,933,039</b>	3,226,856

## 22 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Cost of properties sold (excluding staff costs)	<b>2,538,679</b>	2,530,275
Staff costs (including directors' emoluments)	<b>349,068</b>	267,031
Business taxes and other levies	<b>273,472</b>	249,736
Cost of hotel operations (excluding staff costs)	<b>115,015</b>	111,848
Advertising costs	<b>119,091</b>	103,647
Depreciation (Note 6)	<b>65,742</b>	63,192
Cost of property management services (excluding staff costs)	<b>56,540</b>	40,446
Donations to governmental charity	<b>23,356</b>	8,358
Office lease payments	<b>8,159</b>	7,349
Amortisation of land use rights (Note 6)	<b>9,095</b>	8,306
Auditor's remuneration	<b>2,000</b>	2,000



## Notes to the Condensed Consolidated Interim Financial Information

## 23 OTHER GAINS/(LOSSES) – NET

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Fair value gains/(losses) on derivative financial instruments (Note 20)	9,213	(28,336)
Gains/(losses) from financial instruments	4,117	(1,021)
Others	(320)	–
	<b>13,010</b>	<b>(29,357)</b>

## 24 EXCHANGE GAINS – NET

Amount mainly represents the gain or loss of translation of financial assets and liabilities, which are denominated in foreign currency, into RMB at the prevailing period-end exchange rate. It does not include the exchange gain or loss of translation of borrowings which are included in the "Finance income/(costs) – net" (Note 25).

## 25 FINANCE INCOME/(COSTS) – NET

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Interest expenses:		
– Bank borrowings, other borrowings and finance lease liabilities	(584,415)	(449,104)
– Senior notes	(217,012)	(307,843)
Less: interest capitalised	794,948	728,388
	<b>(6,479)</b>	<b>(28,559)</b>
Net foreign exchange gains/(losses) on financing activities	9,066	(45,022)
	<b>2,587</b>	<b>(73,581)</b>

## Notes to the Condensed Consolidated Interim Financial Information

## 26 INCOME TAX EXPENSES

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	165,069	312,704
– PRC land appreciation tax	199,429	8,287
	<b>364,498</b>	320,991
Deferred income tax:		
– PRC corporate income tax	221,039	(60,168)
	<b>585,537</b>	260,823

**PRC corporate income tax**

The income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the period, based on the existing legislation, interpretations and practices in respect thereof.

In accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), which is effective from 1 January 2008, the corporate income tax rate applicable to the group entities located in Mainland China is 25%.

According to the CIT Law and Implementation Rules, starting from 1 January 2008, a withholding tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are incorporated in Hong Kong and fulfil requirements under the tax treaty arrangements between the PRC and Hong Kong.

**Notes to the Condensed Consolidated Interim Financial Information****26 INCOME TAX EXPENSES (continued)****PRC land appreciation tax ("LAT")**

Pursuant to the requirements of the Provisional Regulations of the PRC on LAT effective 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT effective on 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

The Group has made provision of LAT for sales of properties according to the aforementioned progressive rate, except for certain group companies which calculate the LAT based on deemed tax rates in accordance with the taxation method approved by tax authorities.

**Overseas income tax**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Group's direct subsidiaries in the British Virgin Islands were incorporated under the International Business Companies Act of the British Virgin Islands and accordingly, are exempted from British Virgin Islands income tax.

**Hong Kong profits tax**

No provision for Hong Kong profits tax has been made as the Group did not have assessable profit in Hong Kong during the period.

**27 EARNINGS PER SHARE****(a) Basic**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Group and held for the Share Award Scheme.

	<b>Six months ended 30 June</b>	
	<b>2015</b>	2014
Profit attributable to owners of the Company (RMB'000)	<b>1,030,458</b>	758,823
Weighted average number of ordinary shares in issue (thousand shares)	<b>3,951,923</b>	3,958,425
Basic earnings per share (RMB cents per share)	<b>26.075</b>	19.170

## Notes to the Condensed Consolidated Interim Financial Information

## 27 EARNINGS PER SHARE (continued)

## (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: Pre-IPO Share Option Scheme and Share Award Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the six months ended 30 June 2015) based on the monetary value of the subscription rights attached to outstanding share options under the two schemes. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the two schemes.

	Six months ended 30 June	
	2015	2014
Profit attributable to owners of the Company (RMB'000)	<b>1,030,458</b>	758,823
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	<b>3,958,353</b>	3,960,775
– Weighted average number of ordinary shares for basic earnings per share (thousand shares)	<b>3,951,923</b>	3,958,425
– Adjustment for share options and awarded shares (thousand shares)	<b>6,430</b>	2,350
Diluted earnings per share (RMB cents per share)	<b>26.032</b>	19.158

As for the Pre-IPO Share Option, as the average market price of the ordinary shares during the six months ended 30 June 2015 was lower than the subscription price, which will have no impact on adjusting the weighted average number of the ordinary shares (six months ended 30 June 2014: same).

## 28 DIVIDENDS

No interim dividend in respect of six months ended 30 June 2015 was proposed by the Board (six months ended 30 June 2014: nil).

2014 final cash dividend amounting to RMB252,278,000 (2013: nil) has been approved by Annual General Meeting on 9 June 2015 and not yet paid up to 30 June 2015. The net dividends of RMB249,414,000 after deducting dividend of RMB2,864,000 payable to the Share Award Scheme Trust (six months ended 30 June 2014: nil), is treated as transaction with owners in the condensed consolidated interim statement of changes in equity for the six months ended 30 June 2015.

## 29 FINANCIAL GUARANTEE CONTRACTS

The face value of the financial guarantees issued by the Group is analysed as below:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties (Note (a))	<b>7,116,037</b>	6,462,924
Guarantees for borrowings of joint ventures (Note (b))	<b>2,431,330</b>	1,670,730
	<b>9,547,367</b>	8,133,654

## Notes to the Condensed Consolidated Interim Financial Information

## 29 FINANCIAL GUARANTEE CONTRACTS (continued)

- (a) The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the mortgages. The directors of the Company are of the view that the fair value of financial guarantees is not significant.

- (b) Amounts represent guarantees provided to joint ventures of the Group for their borrowings. The Directors consider that the fair value of these contracts at the date of inception was minimal and understand the repayment was on schedule and the risk of default in payment was remote, therefore no provision has been made for the guarantees.

## 30 COMMITMENTS

- (a) Commitments for property development expenditures

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
Contracted but not provided for		
– Property development activities	<b>5,613,503</b>	6,261,982
– Acquisition of land use rights	<b>16,259</b>	41,461
	<b>5,629,762</b>	6,303,443

- (b) Operating leases commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
– Not later than one year	<b>9,297</b>	15,887
– Later than one year and not later than two years	<b>1,064</b>	1,862
– Later than two years and not later than three years	–	191
	<b>10,361</b>	17,940

## Notes to the Condensed Consolidated Interim Financial Information

## 31 RELATED PARTY TRANSACTIONS

## (a) Name and relationship with related parties

Name	Relationship
Skylong Holdings Limited	The ultimate holding company of the Group (incorporated in Cayman Islands)
The Controlling Shareholders, including Mr. Hoi Kin Hong, Ms. Wang Lai Jan, Mr. Hoi Wa Fong and Ms. Hoi Wa Fan	Ultimate controlling shareholders of the Company and their close family member, Mr. Hoi Kin Hong and Mr. Hoi Wa Fong are also executive directors of the Company
Sky Infinity Holdings Limited	Shareholder of the Company and fully owned subsidiary of Mr. Hoi Wa Fong
Powerlong Group Development Co., Ltd. 寶龍集團發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Macau Powerlong Group 澳門寶龍集團發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Xiamen Powerlong Information Industry Co., Ltd. 廈門寶龍信息產業發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Fuzhou Powerlong Amusement Management Company Limited 福州寶龍樂園遊樂有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Qingdao Bao Zhan New World Industry Co., Ltd. 青島寶展世新實業有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Qingdao Powerlong Amusement Management Company Limited 青島寶龍樂園旅遊發展有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Fujian Ping An Security Devices and Network Limited 福建平安報警網絡有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Zhengzhou Cannes Outlets Commercial Company Limited 鄭州康城奧特萊斯商業有限公司	Ultimately controlled by Mr. Hoi Kin Hong
Great Merchant Limited 弘商有限責任公司	Ultimately controlled by Mr. Hoi Kin Hong
Tianjin Powerlong Jinjun Real Estate Co., Ltd ("Tianjin Jinjun") 天津寶龍金駿房地產開發有限公司	Joint venture
Hangzhou Xiaoshan Powerlong Property Co., Ltd. ("Hangzhou Xiaoshan") 杭州蕭山寶龍置業有限公司	Joint venture
Baohui Property (Hong Kong) Holdings Co., Ltd. ("Baohui Hong Kong") 寶匯地產(香港)控股有限公司	Joint venture
Shanghai Powerlong Zhanyao Enterprises Development Limited ("Shanghai Zhanyao") 上海寶龍展耀企業發展有限公司	Joint venture
Powerlong Golden Wheel Coral Company Limited ("Golden Wheel") 寶龍金輪珊瑚有限公司	Joint venture
Quanzhou Shangquan Industrial Development Co., Ltd. ("Quanzhou Shangquan") 泉州市上泉實業發展有限公司	Associate

## Notes to the Condensed Consolidated Interim Financial Information

## 31 RELATED PARTY TRANSACTIONS (continued)

## (b) Transactions with related parties

- (i) During the six months ended 30 June 2015 and 2014, the Group had the following significant transactions with related parties:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Rental income:		
– Fuzhou Powerlong Amusement Management Company Limited	1,358	1,154
Property management fee income:		
– Related entities ultimately controlled by Mr. Hoi Kin Hong	386	384
Purchase of office equipment and security intelligentisation system services from related parties:		
– Fujian Ping An Security Devices and Network Limited	21,741	10,357
– Xiamen Powerlong Information Industry Co., Ltd.	1,625	1,033
	23,366	11,390
Hotel accommodation service fee charged by a related party:		
– Macau Powerlong Group	505	777
Sales of construction materials to joint ventures:		
– Tianjin Jinjun	13,900	19,665
– Golden Wheel	11,144	–
– Hangzhou Xiaoshan	230	–
	25,274	19,665
Consultation services provided to joint ventures:		
– Tianjin Jinjun	3,756	13,089
– Hangzhou Xiaoshan	2,489	–
– Golden Wheel	79	–
– Xiamen Powerlong	–	5,762
	6,324	18,851
Guarantees for borrowings of joint ventures:		
– Tianjin Jinjun	1,146,330	970,730
– Shanghai Zhanyao	720,000	–
– Hangzhou Xiaoshan	415,000	300,000
– Golden Wheel	150,000	–
	2,431,330	1,270,730

The above transactions were charged in accordance with the terms of the underlying agreements.

- (ii) Certain related parties have provided guarantees for the Group's bank and other borrowings of RMB4,674,810,500 at 30 June 2015 (31 December 2014: RMB3,682,220,000) (Note 19(b), (c)).
- (iii) In the opinion of the directors of the Company, the related party transactions were conducted in the ordinary course of business.

## Notes to the Condensed Consolidated Interim Financial Information

## 31 RELATED PARTY TRANSACTIONS (continued)

## (c) Balances with related parties

As at 30 June 2015 and 31 December 2014, the Group had the following material balances with related parties:

	<b>30 June 2015 RMB'000</b>	31 December 2014 RMB'000
Amounts due from related parties included in trade receivables (Note (i)):		
Amounts due from other related parties		
– Fuzhou Powerlong Amusement Management Company Limited	–	42
Amounts due from joint ventures		
– Golden Wheel	<b>2,129</b>	–
– Tianjin Jinjun	<b>366</b>	7,815
– Xiamen Powerlong	–	30,538
	<b>2,495</b>	38,395
Amounts due from related parties included in other receivables (Note (ii)):		
Amounts due from other related parties		
– Powerlong Group Development Co., Ltd.	<b>21,376</b>	21,376
Amounts due from joint ventures		
– Baohui Hong Kong	<b>266,375</b>	267,275
– Shanghai Zhanyao	–	10,285
	<b>287,751</b>	298,936
Amounts due to related parties included in trade payables (Note (i)):		
Amounts due to other related parties		
– Fujian Ping An Security Devices and Network Limited	<b>11,721</b>	16,357
– Other related entities ultimately controlled by Mr. Hoi Kin Hong	<b>89</b>	614
Amounts due to a joint venture		
– Xiamen Powerlong	–	2,500
Amounts due to an associate		
– Quanzhou Shangquan	<b>2,500</b>	–
	<b>14,310</b>	19,471



## Notes to the Condensed Consolidated Interim Financial Information

## 31 RELATED PARTY TRANSACTIONS (continued)

## (c) Balances with related parties (continued)

	30 June 2015 RMB'000	31 December 2014 RMB'000
Amounts due to related parties included in other payables (Note (ii)):		
Amounts due to other related parties and ultimate controlling shareholder		
– Powerlong Group Development Co., Ltd.	667,603	229,651
– Great Merchant Limited	170,672	172,152
– Mr. Hoi Kin Hong	32,900	32,900
Amounts due to joint ventures		
– Tianjin Jinjun	1,237,895	1,354,145
– Shanghai Zhanyao	387,516	–
– Hangzhou Xianshan	335,873	638,789
– Golden Wheel	81,710	13,500
– Xiamen Powerlong	–	186,325
Amounts due to an associate		
– Quanzhou Shangquan	30,028	40,000
	<b>2,944,197</b>	<b>2,667,462</b>
<b>Dividends payable to (Note 21):</b>		
– Skylong Holdings Limited	113,957	–
– Sky Infinity Holdings Limited	35,684	–
– Walong Holdings Limited	12,749	–
– Mr. Hoi Kin Hong	1,973	–
– Mr. Hoi Wa Fong	623	–
– Spouse of Mr. Hoi Kin Hong	177	–
– Spouse of Mr. Hoi Wa Fong	62	–
	<b>165,225</b>	<b>–</b>

(i) Amounts due from/to related parties included in trade receivables/payables are mainly derived from rental income, purchase of construction materials and consultation services, which are unsecured, interest-free and to be settled according to contract terms.

(ii) Amounts due from/to related parties included in other receivables/payables are unsecured, interest-free and repayable on demand, which are cash advances in nature.

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